

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the quarterly period ended June 30, 2016
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from _____ to _____

Commission file number 0-21513

DXP Enterprises, Inc.

(Exact name of registrant as specified in its charter)

Texas

(State or other jurisdiction of incorporation or organization)

76-0509661

(I.R.S. Employer Identification Number)

7272 Pinemont, Houston, Texas 77040

(Address of principal executive offices, including zip code)

(713) 996-4700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of registrant's Common Stock outstanding as of August 15, 2016: 14,503,485 par value \$0.01 per share.

PART I: FINANCIAL INFORMATION
ITEM 1: FINANCIAL STATEMENTS

DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)(unaudited)

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
ASSETS		
<i>Current assets:</i>		
Cash	\$ 1,087	\$ 1,693
Trade accounts receivable, net of allowance for doubtful accounts of \$10,116 in 2016 and \$9,364 in 2015	159,147	162,925
Inventories, net	98,397	103,819
Costs and estimated profits in excess of billings on uncompleted contracts	19,784	22,045
Prepaid expenses and other current assets	8,050	2,644
Federal income taxes recoverable	1,243	1,839
Deferred income taxes	9,815	8,996
Total current assets	297,523	303,961
Property and equipment, net	66,430	68,503
Goodwill	197,211	197,362
Other intangible assets, net of accumulated amortization of \$93,910 in 2016 and \$85,098 in 2015	104,441	112,297
Other long-term assets	1,676	1,857
Total assets	\$ 667,281	\$ 683,980
LIABILITIES AND EQUITY		
<i>Current liabilities:</i>		
Current maturities of long-term debt	\$ 112,091	\$ 50,829
Trade accounts payable	72,494	77,108
Accrued wages and benefits	18,924	20,864
Customer advances	1,675	1,076
Billings in excess of costs and estimated profits on uncompleted contracts	2,197	8,021
Other current liabilities	16,766	22,220
Total current liabilities	224,147	180,118
Long-term debt, less current maturities and unamortized debt issuance costs of \$602 in 2016 and \$2,046 in 2015	235,041	298,680
Non-current deferred income taxes	8,921	6,312
Commitments and contingencies (Note 15)		
<i>Shareholders' equity:</i>		
Series A preferred stock, 1/10 th vote per share; \$1.00 par value; liquidation preference of \$100 per share (\$112 at June 30, 2016 1,000,000 shares authorized; 1,122 shares issued and outstanding	1	1
Series B convertible preferred stock, 1/10 th vote per share; \$1.00 par value; \$100 stated value; liquidation preference of \$100 per share; \$1,500 at June 30, 2016); 1,000,000 shares authorized; 15,000 shares issued and outstanding	15	15
Common stock, \$0.01 par value, 100,000,000 shares authorized; 14,655,356 at June 30, 2016 and 14,655,356 at December 31, 2015 shares issued	146	146
Additional paid-in capital	104,516	110,306
Retained earnings	109,796	109,783
Accumulated other comprehensive loss	(10,230)	(10,616)
Treasury stock, at cost (142,900 shares in 2016 and 264,297 in 2015)	(6,528)	(12,577)
Total DXP Enterprises, Inc. equity	197,716	197,058
Noncontrolling interest	1,456	1,812
Total equity	199,172	198,870
Total liabilities and equity	\$ 667,281	\$ 683,980

The accompanying notes are an integral part of these condensed consolidated financial statements.

DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE OPERATIONS
(in thousands, except per share amounts) (unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Sales	\$ 256,215	\$ 323,688	\$ 509,776	\$ 665,282
Cost of sales	184,612	232,389	369,355	475,934
Gross profit	71,603	91,299	140,421	189,348
Selling, general and administrative expense	62,754	77,304	133,574	157,254
Operating income	8,849	13,995	6,847	32,094
Other expense (income), net	9	(145)	(146)	(394)
Interest expense	3,951	2,592	7,360	5,275
Income (loss) before income taxes	4,889	11,548	(367)	27,213
Provision for income taxes	(197)	4,381	(205)	10,395
Net income (loss)	5,086	7,167	(162)	16,818
Less Net loss attributable to noncontrolling interest	(84)	-	(220)	-
Net income attributable to DXP Enterprises, Inc.	5,170	7,167	58	16,818
Preferred stock dividend	22	22	45	45
Net income attributable to common shareholders	\$ 5,148	\$ 7,145	\$ 13	\$ 16,773
Net income (loss)	\$ 5,086	\$ 7,167	\$ (162)	\$ 16,818
Cumulative translation adjustment	251	1,731	(387)	4,771
Comprehensive income	\$ 4,835	\$ 5,436	\$ 225	\$ 12,047
Basic earnings per share attributable to DXP Enterprises, Inc.	\$ 0.36	\$ 0.50	\$ 0.00	\$ 1.17
Weighted average common shares outstanding	14,503	14,368	14,494	14,380
Diluted earnings per share attributable to DXP Enterprises, Inc.	\$ 0.34	\$ 0.47	\$ 0.00	\$ 1.11
Weighted average common shares and common equivalent shares outstanding	15,343	15,208	15,334	15,220

The accompanying notes are an integral part of these condensed consolidated financial statements.

DXP ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands) (unaudited)

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributable to DXP Enterprises, Inc.	\$ 58	\$ 16,818
Less net loss attributable to non-controlling interest	(220)	-
Net income (loss)	(162)	16,818
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	5,997	5,919
Amortization of intangible assets	9,038	10,667
Bad debt expense	986	917
Amortization of debt issuance costs	477	578
Write off of debt issuance costs	967	-
Compensation expense for restricted stock	1,253	1,557
Tax loss related to vesting of restricted stock	565	10
Deferred income taxes	738	13
Changes in operating assets and liabilities, net of assets and liabilities acquired in business acquisitions:		
Trade accounts receivable	4,483	41,632
Costs and estimated profits in excess of billings on uncompleted contracts	2,124	(5,983)
Inventories	5,650	6,069
Prepaid expenses and other assets	(1,145)	(3,164)
Accounts payable and accrued expenses	(13,937)	(20,691)
Billings in excess of costs and estimated profits on uncompleted contracts	(5,829)	(538)
Net cash provided by operating activities	11,205	53,804
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,930)	(6,516)
Acquisitions of businesses, net of cash acquired	-	(5,000)
Equity method investment contribution	(4,000)	-
Net cash used in investing activities	(6,930)	(11,516)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	219,019	206,486
Principal payments on revolving line of credit and other long-term debt	(222,840)	(238,473)
Costs for registration of common shares	(226)	-
Loss for non-controlling interest owners, net of tax	(136)	-
Dividends paid	(45)	(45)
Purchase of treasury stock	-	(8,908)
Tax loss related to vesting of restricted stock	(565)	(10)
Net cash used in financing activities	(4,793)	(40,950)
EFFECT OF FOREIGN CURRENCY ON CASH	(88)	103
NET CHANGE IN CASH AND CASH EQUIVALENTS	(606)	1,441
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,693	47
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,087	\$ 1,488

The accompanying notes are an integral part of these condensed consolidated financial statements.

DXP ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COMPANY

DXP Enterprises, Inc. together with its subsidiaries (collectively “DXP,” “Company,” “us,” “we,” or “our”) was incorporated in Texas on July 26, 1996, to be the successor to SEPCO Industries, Inc. DXP Enterprises, Inc. and its subsidiaries are engaged in the business of distributing maintenance, repair and operating (MRO) products, and services to industrial customers. Additionally, DXP provides integrated, custom pump skid packages, pump remanufacturing and manufactures branded private label pumps to industrial customers. The Company is organized into three business segments: Service Centers, Supply Chain Services (SCS) and Innovative Pumping Solutions (IPS). See Note 14 for discussion of the business segments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING AND BUSINESS POLICIES

Basis of Presentation

The Company’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“USGAAP”). The accompanying condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and its variable interest entity (“VIE”). The accompanying unaudited condensed consolidated financial statements have been prepared on substantially the same basis as our annual consolidated financial statements and should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2015. For a more complete discussion of our significant accounting policies and business practices, refer to the consolidated annual report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016. The results of operations for the three months ended June 30, 2016 are not necessarily indicative of results expected for the full fiscal year. In the opinion of management, these condensed consolidated financial statements contain all adjustments necessary to present fairly the Company’s condensed consolidated balance sheets as of December 31, 2015 (audited) and June 30, 2016 (unaudited), condensed consolidated statements of operations and comprehensive operations for the three and six months ending June 30, 2015 and June 30, 2016 (unaudited), and condensed consolidated statements of cash flows for the six months ended June 30, 2015 and June 30, 2016 (unaudited). All such adjustments represent normal recurring items.

DXP is the primary beneficiary of a VIE in which DXP owns 47.5% of the equity. DXP consolidates the financial statements of the VIE with the financial statements of DXP. As of June 30, 2016, the total assets of the VIE were approximately \$4.7 million including approximately \$4.6 million of property and equipment. DXP is the sole customer of the VIE. Consolidation of the VIE increased cost of sales by approximately \$0.2 and \$0.6 million, respectively for the three and six months ended June 30, 2016. The Company recognized a related income tax benefit of \$50 thousand and \$150 thousand, respectively, related to the VIE for the three and six months ended June 30, 2016. At June 30, 2016, the owners of the 52.5% of the equity not owned by DXP included a former executive officer and other employees of DXP. The Company was not the primary beneficiary of the VIE for the three and six months ended June 30, 2015.

Equity investments in which we exercise significant influence, but do not control and are not the primary beneficiary, are accounted for using the equity method of accounting. During the first quarter of 2016, DXP invested \$4.0 million in a related party equity method investment which is included in “Prepaid expenses and other current assets” due to its short-term nature. A portion of the remaining interest in this investment is owned by the Company’s Chief Executive Officer.

All intercompany accounts and transactions have been eliminated upon consolidation.

NOTE 3 – RISKS AND UNCERTAINTIES

We believe our cash generated from operations will meet our normal working capital needs during the next twelve months. We expect we will be able to comply with the financial covenants under our credit facility through and including June 30, 2017. Because the credit facility matures on March 31, 2018, and the financial covenants become more restrictive after June 30, 2017, we will need to amend our credit facility or obtain alternative financing including additional debt and/or equity during the next two years. Such alternative financings may include additional bank debt or the public or private sale of debt or equity securities. In connection with any such financing, we may issue securities that substantially dilute the interests of our shareholders. We may not be able to amend the Facility or to obtain alternative financing on attractive terms, if at all

NOTE 4 - RECENT ACCOUNTING PRONOUNCEMENTS

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The update aims to simplify aspects of accounting for share-based payment award transactions, including (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*: The update requires organizations that lease assets (“lessees”) to recognize the assets and liabilities for the rights and obligations created by leases with terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee remains dependent on its classification as a finance or operating lease. The criteria for determining whether a lease is a finance or operating lease has not been significantly changed by this ASU. The ASU also requires additional disclosure of the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes*. The update requires entities to present deferred tax assets and liabilities as noncurrent in a classified balance sheet. The update simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (“ASU 2015-11”)*. The amendments in ASU 2015-11 clarify the subsequent measurement of inventory requiring an entity to subsequently measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU applies only to inventory that is measured using the first-in, first-out (FIFO) or average cost method. Subsequent measurement is unchanged for inventory measured using last-in, first-out (LIFO) or the retail inventory method. The amendments in ASU 2015-11 should be applied prospectively and are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires entities to recognize debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, however, early adoption is permitted. DXP adopted this guidance in the first quarter of 2015 and adjusted the balance sheet and related disclosures for all periods presented.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (ASU 2014-15)*, which asserts that management should evaluate whether there are relevant conditions or events that are known and reasonably knowable that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued or are available to be issued when applicable. If conditions or events at the date the financial statements are issued raise substantial doubt about an entity’s ability to continue as a going concern, disclosures are required which will enable users of the financial statements to understand the conditions or events as well as management’s evaluation and plan. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter; early application is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance on revenue recognition. The core principal of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance requires entities to apply a five-step method to (1) identify the contract(s) with customers; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This pronouncement was originally effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. In April 2015, the FASB approved a proposal to defer the effective date to fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

NOTE 5 - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Authoritative guidance for financial assets and liabilities measured on a recurring basis applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. Fair value, as defined in the authoritative guidance, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance affects the fair value measurement of an investment with quoted market prices in an active market for identical instruments, which must be classified in one of the following categories:

Level 1 Inputs

Level 1 inputs come from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs

Level 2 inputs are other than quoted prices that are observable for an asset or liability. These inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs

Level 3 inputs are unobservable inputs for the asset or liability which require the Company's own assumptions.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

During the third and fourth quarters of 2015, in connection with interim tests for impairment, DXP recorded total impairment charges of \$68.7 million in order to reflect the implied fair values of goodwill, which is a non-recurring fair value adjustment. The fair values of goodwill used in the impairment calculations were estimated based on discounted estimated future cash flows with the discount rates of 10.0% to 11.5%. The measurements utilized to determine the implied fair value of goodwill represent significant unobservable inputs (Level 3) in accordance with the fair value hierarchy.

NOTE 6 – INVENTORIES, NET

The carrying values of inventories are as follows (*in thousands*):

	June 30, 2016	December 31, 2015
Finished goods	\$ 89,813	\$ 94,524
Work in process	8,584	9,295
Inventories, net	<u>\$ 98,397</u>	<u>\$ 103,819</u>

NOTE 7 – COSTS AND ESTIMATED PROFITS ON UNCOMPLETED CONTRACTS

Costs and estimated profits in excess of billings on uncompleted contracts arise in the consolidated balance sheets when revenues have been recognized but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers upon various measures of performance, including achievement of certain milestones, completion of specified units, or completion of a contract.

Costs and estimated profits on uncompleted contracts and related amounts billed were as follows (in thousands):

	June 30, 2016	December 31, 2015
Costs incurred on uncompleted contracts	\$ 36,297	\$ 34,400
Estimated profits, thereon	11,258	13,119
Total	47,555	47,519
Less: billings to date	29,975	33,422
Net	<u>\$ 17,580</u>	<u>\$ 14,097</u>

Such amounts were included in the accompanying condensed consolidated balance sheets for 2016 and 2015 under the following captions (in thousands):

	June 30, 2016	December 31, 2015
Costs and estimated profits in excess of billings on uncompleted contracts	\$ 19,784	\$ 22,045
Billings in excess of costs and estimated profits on uncompleted contracts	(2,197)	(8,021)
Translation adjustment	(7)	73
Net	<u>\$ 17,580</u>	<u>\$ 14,097</u>

NOTE 8 - PROPERTY AND EQUIPMENT, NET

The carrying values of property and equipment are as follows (*in thousands*):

	June 30, 2016	December 31, 2015
Land	\$ 2,384	\$ 2,386
Buildings and leasehold improvements	16,843	16,631
Furniture, fixtures and equipment	105,830	102,494
Less – Accumulated depreciation	(58,627)	(53,008)
Total property and equipment, net	<u>\$ 66,430</u>	<u>\$ 68,503</u>

NOTE 9 - GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents the changes in the carrying amount of goodwill and other intangible assets during the six months ended June 30, 2016 (*in thousands*):

	<u>Goodwill</u>	<u>Other Intangible Assets</u>	<u>Total</u>
Balance as of December 31, 2015	\$ 197,362	\$ 112,297	\$ 309,659
Purchase price adjustment	(151)	-	(151)
Translation adjustment	-	1,182	1,182
Amortization	-	(9,038)	(9,038)
Balance as of June 30, 2016	<u>\$ 197,211</u>	<u>\$ 104,441</u>	<u>\$ 301,652</u>

The following table presents goodwill balance by reportable segment as of June 30, 2016 and December 31, 2015 (*in thousands*) :

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Service Centers	\$ 164,093	\$ 164,244
Innovative Pumping Solutions	15,980	15,980
Supply Chain Services	17,138	17,138
Total	<u>\$ 197,211</u>	<u>\$ 197,362</u>

The following table presents a summary of amortizable other intangible assets (*in thousands*):

	<u>As of June 30, 2016</u>			<u>As of December 31, 2015</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount, net</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Carrying Amount, net</u>
Customer relationships	\$ 196,503	\$ (92,404)	104,099	195,580	(83,741)	111,839
Non-compete agreements	1,848	(1,506)	342	1,815	(1,357)	458
Total	<u>\$ 198,351</u>	<u>\$ (93,910)</u>	<u>\$ 104,441</u>	<u>\$ 197,395</u>	<u>\$ (85,098)</u>	<u>\$ 112,297</u>

Gross carrying amounts as well as accumulated amortization are partially affected by the fluctuation of foreign currency rates. Other intangible assets are amortized according to estimated economic benefits over their estimated useful lives.

NOTE 10 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2016 and December 31, 2015 (*in thousands*):

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Line of credit	\$ 193,738	\$ 172,147
Term loan	150,000	175,000
Promissory note payable in monthly installments at 2.9% through January 2021, collateralized by equipment	3,996	4,408
Less unamortized debt issuance costs	(602)	(2,046)
	<u>347,132</u>	<u>349,509</u>
Less: Current portion	(112,091)	(50,829)
Long-term debt less current maturities	<u>\$ 235,041</u>	<u>\$ 298,680</u>

On July 11, 2012, DXP entered into a credit facility with Wells Fargo Bank National Association, as Issuing Lender, Swingline Lender and Administrative Agent for the lenders (as amended, the “Original Facility”). On January 2, 2014, the Company entered into an Amended and Restated Credit Agreement with Wells Fargo Bank, National Association, as Issuing Lender and Administrative Agent for other lenders (as amended by that certain First Amendment to Amended and Restated Credit Agreement, dated as of August 6, 2015 (the “First Amendment”), that certain Second Amendment to Amended and Restated Credit Agreement, dated as of September 30, 2015 (the “Second Amendment”), that certain Third Amendment to Amended and Restated Credit Agreement, dated as of May 12, 2016 (the “Third Amendment”), and that certain Fourth Amendment to the Amended and Restated Credit Agreement, dated as of August 15, 2016 (the “Fourth Amendment”), the “Facility”), amending and restating the Original Facility. Pursuant to the Facility, as of August 15, 2016, the lenders named therein provided to DXP a \$150 million term loan and a \$205 million revolving line of credit. The Facility expires on March 31, 2018. Loans made from the Facility may be used for working capital and general corporate purposes of DXP and its subsidiaries. As of June 30, 2016, the aggregate principal amount of revolving loans outstanding under the facility was \$193.7 million.

Amortization payments are required with respect to the Facility on the last business day of each fiscal quarter, payable at \$12.5 million per quarter for the fiscal quarter periods ending September 30, 2016 through and including December 31, 2016, and payable at \$15.625 million per quarter for the fiscal quarter periods ending March 31, 2017 and thereafter. The Fourth Amendment requires additional term loan principal reductions of \$17 million by December 31, 2016 and \$14 million by March 31, 2017. At June 30, 2016, the aggregate principal amount of term loans outstanding under the Facility was \$150.0 million.

Under the terms of the Fourth Amendment:

- The revolving line of credit was reduced from \$250 million to \$205 million, as of August 15, 2016, and shall be reduced to \$190 million, as of March 31, 2017.
- A permitted overadvance facility (the “Permitted Overadvance Facility”) has been added with amounts to be determined but which shall permit drawings in excess of the ratio of (i) the sum of 85% of net accounts receivable and 65% of net inventory to (ii) the aggregate amount of revolving credit outstandings (the “Asset Coverage Ratio”).
- Certain modifications were made to the pricing grid set forth in the Facility to increase the rate at which the Facility bears interest to a rate equal to LIBOR (or CDOR for Canadian dollar loans) plus 5.00% and Base Rate (or Canadian Base Rate for Canadian dollar loans) plus 4.00%; provided, that drawings under the Permitted Overadvance Facility shall bear interest at a rate equal to LIBOR (or CDOR for Canadian dollar loans) plus 6.00% and Base Rate (or Canadian Base Rate for Canadian dollar loans) plus 5.00%
- The maturity date of the Facility was modified from January 2, 2019 to March 31, 2018.
- Additional mandatory prepayments were added in an amount equal to \$30 million (including \$17 million to be applied to the term loan) by December 31, 2016 and \$25 million (including \$14 million to be applied to the term loan) by March 31, 2017.
- The negative covenants were modified to reduce certain debt baskets, including for purchase money, capital lease and unsecured debt and to limit the ability of the Company to conduct asset sales in excess of \$3.5 million without the consent of the Required Lenders.
- A financial covenant holiday has been provided through June 30, 2017 for the Consolidated Leverage Ratio and the Consolidated Fixed Charge Ratio.
- The minimum Asset Coverage Ratio was adjusted to .95 to 1.00 beginning June 30, 2016.
- A minimum EBITDA and capital expenditure covenant were added to the Facility.”

On June 30, 2016, the LIBOR based rate in effect under the Facility was LIBOR plus 3.25%, the prime based rate of the Facility was prime plus 2.25%. The Fourth Amendment increased the LIBOR based rate under the Facility to LIBOR plus 5.0% and the prime based rate of the Facility to prime plus 4.0% as of August 15, 2016. At June 30, 2016, \$343.7 million was borrowed under the Facility at a weighted average interest rate of approximately 3.72% under the LIBOR options. At June 30, 2016, the Company had \$10.1 million available for borrowing under the Facility.

Commitment fees of 0.50% per annum are payable on the portion of the Facility capacity not in use at any given time on the line of credit. Commitment fees are included as interest in the condensed consolidated statements of operations.

The Facility contains financial covenants defining various financial measures and levels of these measures with which the Company must comply. Covenant compliance is assessed as of each month end. Substantially all of the Company's assets are pledged as collateral to secure the Facility.

NOTE 11 - STOCK-BASED COMPENSATION

Restricted Stock

Under the restricted stock plans approved by our shareholders (the "Restricted Stock Plans"), directors, consultants and employees were awarded shares of DXP's common stock. The shares of restricted stock granted to employees and that are outstanding as of June 30, 2016 vest in accordance with one of the following vesting schedules: 100% one year after date of grant; 33.3% each year for three years after the date of grant; 20% each year for five years after the grant date; or 10% each year for ten years after the grant date. The shares of restricted stock granted to non-employee directors of DXP vest one year after the grant date. The fair value of restricted stock awards was measured based upon the closing prices of DXP's common stock on the grant dates and is recognized as compensation expense over the vesting period of the awards. Once restricted stock vests, new shares of the Company's stock are issued.

The following table provides certain information regarding the shares authorized and outstanding under the Restricted Stock Plans at June 30, 2016:

Number of shares authorized for grants	1,300,000
Number of shares granted	(883,199)
Number of shares forfeited	158,876
Number of shares expired from 2005 plan	(81,527)
Number of shares available for future grants	<u>494,150</u>
Weighted-average grant price of granted shares	\$ 28.26

Changes in restricted stock for the six months ended June 30, 2016 were as follows:

	<u>Number of Shares</u>	<u>Weighted Average Grant Price</u>
Non-vested at December 31, 2015	137,507	\$ 54.58
Granted	10,000	\$ 16.35
Forfeited	(15,000)	\$ 91.56
Vested	(46,642)	\$ 52.32
Non-vested at June 30, 2016	<u>85,865</u>	\$ 44.89

Compensation expense, associated with restricted stock, recognized in the six months ended June 30, 2016 and 2015 was \$1.3 million and \$1.6 million, respectively. Related income tax losses recognized in earnings for the six months ended June 30, 2016 were approximately \$0.6 million. Unrecognized compensation expense under the Restricted Stock Plan at June 30, 2016 and December 31, 2015 was \$2.9 million and \$4.2 million, respectively. As of June 30, 2016, the weighted average period over which the unrecognized compensation expense is expected to be recognized is 20.68 months.

NOTE 12 - EARNINGS PER SHARE DATA

Basic earnings per share is computed based on weighted average shares outstanding and excludes dilutive securities. Diluted earnings per share is computed including the impacts of all potentially dilutive securities

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (*in thousands, except per share data*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic:				
Weighted average shares outstanding	14,503	14,368	14,494	14,380
Net income attributable to DXP Enterprises, Inc.	\$ 5,170	\$ 7,167	\$ 58	\$ 16,818
Convertible preferred stock dividend	22	22	45	45
Net income attributable to common shareholders	\$ 5,148	\$ 7,145	\$ 13	\$ 16,773
Per share amount	\$ 0.36	\$ 0.50	\$ 0.00	\$ 1.17
Diluted:				
Weighted average shares outstanding	14,503	14,368	14,494	14,380
Assumed conversion of convertible preferred stock	840	840	840	840
Total dilutive shares	15,343	15,208	15,334	15,220
Net income attributable to common shareholders	\$ 5,148	\$ 7,145	\$ 13	\$ 16,773
Convertible preferred stock dividend	(22)	(22)	(45)	(45)
Net income attributable to DXP Enterprises, Inc. for diluted earnings per share	\$ 5,170	\$ 7,167	\$ 58	\$ 16,818
Per share amount	\$ 0.34	\$ 0.47	\$ 0.00	\$ 1.11

NOTE 13 - BUSINESS ACQUISITIONS

All of the Company's acquisitions have been accounted for using the purchase method of accounting. Revenues and expenses of the acquired businesses have been included in the accompanying condensed consolidated financial statements beginning on their respective dates of acquisition. The allocation of purchase price to the acquired assets and liabilities is based on estimates of fair market value and may be prospectively revised if and when additional information the Company is awaiting concerning certain asset and liability valuations is obtained, provided that such information is received no later than one year after the date of acquisition. Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. It specifically includes the expected synergies and other benefits that we believe will result from combining the operations of our acquisitions with the operations of DXP and any intangible assets that do not qualify for separate recognition such as the assembled workforce.

On April 1, 2015, the Company completed the acquisition of all of the equity interests of Tool Supply, Inc. (“TSI”) to expand DXP’s cutting tools offering in the Northwest region of the United States. DXP paid approximately \$5.0 million for TSI, which was borrowed under the Facility. Estimated goodwill of \$2.9 million and intangible assets of \$2.0 million were recognized for this acquisition. All of the estimated goodwill is included in the Service Centers segment. None of the estimated goodwill or intangible assets are expected to be tax deductible.

On September 1, 2015, the Company completed the acquisition of all of the equity interests of Cortech Engineering, LLC (“Cortech”) to expand DXP’s rotating equipment offering to the Western seaboard. DXP paid approximately \$14.9 million for Cortech. The purchase was financed with borrowings under the Facility as well as by issuing \$4.4 million (148.8 thousand shares) of DXP common stock. DXP has not completed valuations of intangibles for Cortech, the valuation of working capital items or completed the analysis of the tax effects, and therefore has made preliminary estimates for the purposes of this disclosure. Estimated goodwill of \$8.7 million and intangible assets of \$5.2 were recognized for this acquisition. All of the estimated goodwill is included in the Service Centers segment. Approximately \$4.5 million of the goodwill and intangible assets are not deductible for tax purposes.

The values assigned to the non-compete agreements and customer relationships for business acquisitions were determined by discounting the estimated cash flows associated with non-compete agreements and customer relationships as of the date the acquisition was consummated. The estimated cash flows were based on estimated revenues net of operating expenses and net of capital charges for assets that contribute to the projected cash flow from these assets. The projected revenues and operating expenses were estimated based on management estimates at the date of purchase. Net capital charges for assets that contribute to projected cash flow were based on the estimated fair value of those assets.

For the three months ended June 30, 2016, businesses acquired during 2015 contributed sales of \$7.2 million and income before taxes of approximately \$59 thousand.

For the six months ended June 30, 2016, businesses acquired during 2015 contributed sales of \$13.1 million and a loss before taxes of approximately \$0.4 million.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed during 2015 in connection with the acquisitions described above (*in thousands*):

	2015	
	TSI	Cortech ¹
Accounts receivable, net	442	2,444
Inventory	475	1,243
Property & equipment	42	253
Goodwill and intangibles	4,929	13,897
Other assets	100	21
Assets acquired	5,988	17,858
Current liabilities assumed	(335)	(2,610)
Non-current liabilities assumed	(653)	(349)
Net assets acquired	\$ 5,000	\$ 14,899

(1)Preliminary allocation.

The pro forma unaudited results of operations for the Company on a consolidated basis for the three and six months ended June 30, 2016 and 2015, assuming the acquisition of businesses completed in 2015 were consummated as of January 1, 2015 are as follows (*in thousands, except per share data*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	\$ 256,215	\$ 329,886	\$ 509,776	\$ 677,324
Net income attributable to DXP Enterprises, Inc.	\$ 5,170	\$ 7,540	\$ 58	\$ 17,684
Per share data attributable to DXP Enterprises, Inc.				
Basic earnings	\$ 0.36	\$ 0.52	\$ 0.00	\$ 1.23
Diluted earnings	\$ 0.34	\$ 0.50	\$ 0.00	\$ 1.16

NOTE 14 - SEGMENT REPORTING

The Company's reportable business segments are: Service Centers, Innovative Pumping Solutions and Supply Chain Services. The Service Centers segment is engaged in providing maintenance, MRO products, equipment and integrated services, including logistics capabilities, to industrial customers. The Service Centers segment provides a wide range of MRO products in the rotating equipment, bearing, power transmission, hose, fluid power, metal working, fastener, industrial supply, safety products and safety services categories. The Innovative Pumping Solutions segment fabricates and assembles custom-made pump packages, remanufactures pumps and manufactures branded private label pumps. The Supply Chain Services segment provides a wide range of MRO products and manages all or part of a customer's supply chain, including warehouse and inventory management.

The high degree of integration of the Company's operations necessitates the use of a substantial number of allocations and apportionments in the determination of business segment information. Sales are shown net of intersegment eliminations.

The following table sets out financial information related to the Company's segments (*in thousands*):

	For the Three Months Ended June 30,							
	2016				2015			
	SC	IPS	SCS	Total	SC	IPS	SCS	Total
Sales	\$ 161,832	\$ 54,353	\$ 40,030	\$ 256,215	\$ 214,116	\$ 66,905	\$ 42,667	\$ 323,688
Amortization	2,284	1,955	271	4,510	2,928	2,107	274	5,309
Operating income	10,313	3,532	3,931	17,776	18,191	3,805	3,462	25,458
Operating income, excluding amortization	\$ 12,597	\$ 5,487	\$ 4,202	\$ 22,286	\$ 21,119	\$ 5,912	\$ 3,736	\$ 30,767

	For the Six Months Ended June 30,							
	2016				2015			
	SC	IPS	SCS	Total	SC	IPS	SCS	Total
Sales	\$ 329,334	\$ 101,784	\$ 78,658	\$ 509,776	\$ 439,907	\$ 141,169	\$ 84,206	\$ 665,282
Amortization	4,579	3,917	542	9,038	5,904	4,215	548	10,667
Operating income	17,555	1,876	7,140	26,571	38,081	10,324	6,466	54,871
Operating income, excluding amortization	\$ 22,134	\$ 5,793	\$ 7,682	\$ 35,609	\$ 43,985	\$ 14,539	\$ 7,014	\$ 65,538

The following table presents reconciliations of operating income for reportable segments to the consolidated income before taxes (*in thousands*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating income for reportable segments, excluding amortization	\$ 22,286	\$ 30,767	\$ 35,609	\$ 65,538
Adjustment for:				
Amortization of intangibles	4,510	5,309	9,038	10,667
Corporate expense	8,927	11,463	19,724	22,777
Total operating income	8,849	13,995	6,847	32,094
Interest expense	3,951	2,592	7,360	5,275
Other expense (income), net	9	(145)	(146)	(394)
Income before income taxes	\$ 4,889	\$ 11,548	\$ (367)	\$ 27,213

NOTE 15 – COMMITMENTS AND CONTINGENCIES

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. While DXP is unable to predict the outcome of these lawsuits, it believes that the ultimate resolution will not have, either individually or in the aggregate, a material adverse effect on DXP's consolidated financial position, cash flows, or results of operations.

NOTE 16 – SHARE REPURCHASES

On December 17, 2014, DXP publicly announced an authorization from the Board of Directors that allows DXP from time to time to purchase up to 400,000 shares of DXP's common stock over 24 months. Purchases could be made in open market or in privately negotiated transactions. During the first quarter of 2015, DXP purchased 191,420 shares for \$8.9 million under this authorization, leaving 208,580 shares still authorized as of June 30, 2016.

NOTE 17 - SUBSEQUENT EVENTS

On August 15, 2016, DXP amended the Facility as follows:

- The revolving line of credit was reduced from \$250 million to \$205 million, as of August 15, 2016, and shall be reduced to \$190 million, as of March 31, 2017.
- A permitted overadvance facility (the "Permitted Overadvance Facility") has been added with amounts to be determined but which shall permit drawings in excess of the ratio of (i) the sum of 85% of net accounts receivable and 65% of net inventory to (ii) the aggregate amount of revolving credit outstandings (the "Asset Coverage Ratio").
- Certain modifications were made to the pricing grid set forth in the Facility to increase the rate at which the Facility bears interest to a rate equal to LIBOR (or CDOR for Canadian dollar loans) plus 5.00% and Base Rate (or Canadian Base Rate for Canadian dollar loans) plus 4.00%; provided, that drawings under the Permitted Overadvance Facility shall bear interest at a rate equal to LIBOR (or CDOR for Canadian dollar loans) plus 6.00% and Base Rate (or Canadian Base Rate for Canadian dollar loans) plus 5.00%
- The maturity date of the Facility was modified from January 2, 2019 to March 31, 2018.
- Additional mandatory prepayments were added in an amount equal to \$30 million (including \$17 million to be applied to the term loan) by December 31, 2016 and \$25 million (including \$14 million to be applied to the term loan) by March 31, 2017.
- The negative covenants were modified to reduce certain debt baskets, including for purchase money, capital lease and unsecured debt and to limit the ability of the Company to conduct asset sales in excess of \$3.5 million without the consent of the Required Lenders.
- A financial covenant holiday has been provided through June 30, 2017 for the Consolidated Leverage Ratio and the Consolidated Fixed Charge Ratio.
- The minimum Asset Coverage Ratio was adjusted to .95 to 1.00 beginning June 30, 2016.
- A minimum EBITDA and capital expenditure covenant were added to the Facility."

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis (MD&A) of the financial condition and results of operations of DXP Enterprises, Inc. together with its subsidiaries (collectively "DXP," "Company," "us," "we," or "our") for the three and six months ended June 30, 2016 should be read in conjunction with our previous annual report on Form 10-K and our quarterly reports on Form 10-Q incorporated in this Quarterly Report on Form 10-Q by reference, and the financial statements and notes thereto included in our annual and quarterly reports. The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("USGAAP").

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Report") contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Such statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "might", "estimates", "will", "should", "could", "would", "suspect", "potential", "current", "achieve", "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Any such forward-looking statements are not guarantees of future performance and may involve significant risks and uncertainties, and actual results may vary materially from those discussed in the forward-looking statements or historical performance as a result of various factors. These factors include the effectiveness of management's strategies and decisions, our ability to implement our internal growth and acquisition growth strategies, general economic and business condition specific to our primary customers, changes in government regulations, our ability to effectively integrate businesses we may acquire, new or modified statutory or regulatory requirements and changing prices and market conditions. This Report identifies other factors that could cause such differences. We cannot assure that these are all of the factors that could cause actual results to vary materially from the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors", included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016. We assume no obligation and do not intend to update these forward-looking statements. Unless the context otherwise requires, references in this Report to the "Company", "DXP", "we" or "our" shall mean DXP Enterprises, Inc., a Texas corporation, together with its subsidiaries.

RESULTS OF OPERATIONS

(in thousands, except percentages and per share data)

	Three Months Ended June 30,				Six Months June 30,			
	2016	%	2015	%	2016	%	2015	%
Sales	\$ 256,215	100.0%	\$ 323,688	100.0%	\$ 509,776	100.0%	\$ 665,282	100.0%
Cost of sales	184,612	72.1%	232,389	71.8%	369,355	72.5%	475,934	71.5%
Gross profit	71,603	27.9%	91,299	28.2%	140,421	27.5%	189,348	28.5%
Selling, general and administrative expense	62,754	24.5%	77,304	23.9%	133,574	26.2%	157,254	23.6%
Operating income	8,849	3.5%	13,995	4.3%	6,847	1.3%	32,094	4.9%
Other expense (income), net	9	0.0%	(145)	(0.1)%	(146)	0.0%	(394)	(0.1)%
Interest expense	3,951	1.5%	2,592	0.8%	7,360	1.4%	5,275	0.8%
Income (loss) before taxes	4,889	2.0%	11,548	3.6%	(367)	-0.1%	27,213	4.2%
Provision for income taxes	(197)	0.0%	4,381	1.4%	(205)	0.0%	10,395	1.6%
Net income (loss)	5,086	2.0%	7,167	2.2%	(162)	0.0%	16,818	2.5%
Net loss attributable to noncontrolling interest	(84)	0.0%	-	0.0%	(220)	0.0%	-	0.0%
Net income (loss) attributable to DXP Enterprises, Inc.	\$ 5,170	2.0%	\$ 7,167	2.2%	\$ 58	0.0%	\$ 16,818	2.5%
Per share amounts attributable to DXP Enterprises, Inc.								
Basic earnings (loss) per share	\$ 0.36		\$ 0.50		\$ 0.00		\$ 1.17	
Diluted earnings (loss) per share	\$ 0.34		\$ 0.47		\$ 0.00		\$ 1.11	

DXP is organized into three business segments: Service Centers, Supply Chain Services (SCS) and Innovative Pumping Solutions (IPS). The Service Centers are engaged in providing maintenance, repair and operating (MRO) products, equipment and integrated services, including technical expertise and logistics capabilities, to industrial customers with the ability to provide same day delivery. The Service Centers provide a wide range of MRO products and services in the rotating equipment, bearing, power transmission, hose, fluid power, metal working, industrial supply and safety product and service categories. The SCS segment provides a wide range of MRO products and manages all or part of our customer's supply chain, including inventory. The IPS segment fabricates and assembles integrated pump system packages custom made to customer specifications, remanufactures pumps and manufactures branded private label pumps. Over 90% of DXP's revenues represent sales of products.

Three Months Ended June 30, 2016 compared to Three Months Ended June 30, 2015

SALES. Sales for the three months ended June 30, 2016 decreased \$67.5 million, or 20.8%, to approximately \$256.2 million from \$323.7 million for the prior corresponding period. Sales by businesses acquired during 2015 ("Acquired Businesses") accounted for a \$6.3 million increase. Excluding second quarter 2016 sales from acquired businesses, on a same store sales basis, sales for the second quarter in 2016 decreased by \$73.8 million, or 22.8% from the prior corresponding period. This same store sales decrease is the result of decreases in our Service Center, IPS and SCS segments of \$58.6 million, \$12.6 million and \$2.6 million, respectively, on a same store sales basis. These declines are explained in segment discussions below.

GROSS PROFIT. Gross profit as a percentage of sales for the three months ended June 30, 2016 decreased by approximately 25 basis points from the prior corresponding period. On a same store sales basis, gross profit as a percentage of sales decreased by approximately 25 basis points. The small decline in the same store gross profit percentage is the result of an approximate 100 basis point decline in the gross profit percentage in our Service Centers segment, which was partially offset by an increase in the gross profit percentage of our IPS and SCS segments of approximately 200 basis points and 120 basis points, respectively. These fluctuations are explained in the segment discussions below.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense (SG&A) for the three months ended June 30, 2016 decreased by approximately \$14.5 million, or 18.8%, to \$62.8 million from \$77.3 million for the prior corresponding period. SG&A expense from Acquired Businesses accounted for \$1.8 million of the second quarter amount. Excluding second quarter expenses from Acquired Businesses, on a same store sales basis, SG&A for the quarter decreased by \$16.3 million, or 21.1%. The overall decline in SG&A, on a same store sales basis, is partially the result of a \$9.8 million decrease in payroll, incentive compensation, payroll taxes and 401(k) expenses due to headcount and salary reductions. As a result of the headcount reductions and additional cost containment measures, meals and entertainment, travel, and vehicle expenses decreased by \$1.0 million. Additionally, same store sales amortization expense declined by \$1.0 million and legal expenses decreased by \$0.3 million as a result of resolving the B27 working capital dispute and a dispute with ITT Goulds. The remaining decline in SG&A expense for the second quarter of 2016 is consistent with the decrease in sales. As a percentage of sales, the second quarter 2016 expense, on a same store sales basis, increased approximately 50 basis points to 24.4%, from 23.9% for the prior corresponding period, on a same store sales basis, primarily as a result of the percentage decrease in sales exceeding the percentage decline in SG&A.

OPERATING INCOME. Operating income for the second quarter of 2016 decreased \$5.1 million, to \$8.8 million, from \$14.0 million for the prior corresponding period. Acquired Businesses broke even in operating income. This decrease in operating income, on a same store basis, is primarily related to the decline in sales and gross profit discussed above.

INTEREST EXPENSE. Interest expense for the second quarter of 2016 increased 52.4% from the prior corresponding period primarily as a result of a \$0.6 million write-off of debt issuance costs combined with increased interest rates. The write-off of debt issuance costs resulted from scheduled principal reductions in the term loan and revolving line of credit commitments and shortening of the maturity of the Facility.

INCOME TAXES. Our provision for income taxes differs from the U.S. statutory rate of 35% primarily due to state income taxes, operating losses in our Canadian operations and non-deductible expenses. The effective tax rate for the second quarter of 2016 decreased to 4.0%, from 37.9% in the prior corresponding period, primarily as a result of the combination of near break-even income, permanent differences and operating losses in our Canadian operations.

SERVICE CENTERS SEGMENT. Sales for the Service Centers segment decreased by \$52.3 million, or 24.4% for the second quarter of 2016 compared to the prior corresponding period. Excluding second quarter 2016 Service Centers segment sales from Acquired Businesses of \$6.3 million, Service Centers segment sales for the second quarter in 2016 decreased \$58.6 million, or 27.4% from the prior corresponding period, on a same store sales basis. This sales decrease is primarily the result of decreased sales of rotating equipment, bearings, metal working products and safety services to customers engaged in the upstream oil and gas market or manufacturing equipment for the upstream oil and gas market. If crude oil and natural gas prices remain at, or below, prices experienced during the second quarter of 2016, this declining level of sales to the upstream oil and gas industry would be expected to continue during the remainder of 2016. As a percentage of sales, the second quarter gross profit percentage for the Service Centers decreased approximately 100 basis points, on a same store sales basis, from the prior corresponding period. This decline in the gross profit percentage is primarily the result of declines in sales of higher margin safety services and metal working products. Excluding amortization, operating income for the Service Centers segment decreased \$8.5 million, or 40.4%. Service Centers Acquired Businesses accounted for \$0.3 million of the second quarter operating income. On a same store sales basis, operating income for the Service Centers segment decreased \$8.9 million, or 41.9%. The decline in operating income is primarily the result of the decline in sales and gross profit percentage discussed above.

INNOVATIVE PUMPING SOLUTIONS SEGMENT. Sales for the IPS segment decreased by \$12.6 million, or 18.8% for the second quarter of 2016 compared to the prior corresponding period. This decrease was primarily the result of a decline in the capital spending by oil and gas producers and related businesses stemming from the decline in the price of oil. This decline in IPS sales could continue during the remainder of 2016 if crude oil and natural gas prices remain at or below prices experienced during the second quarter of 2016. As a percentage of sales, the second quarter gross profit percentage for the IPS segment increased approximately 200 basis points from the prior corresponding period. Gross profit margins for individual orders for the IPS segment can fluctuate significantly because each order is for a unique package built to customer specifications and subject to varying competition. Excluding amortization, operating income for the IPS segment decreased \$0.4 million, or 7.2%, primarily as a result of the 18.8% decrease in sales partially offset by the improvement in gross profit margins.

SUPPLY CHAIN SERVICES SEGMENT. Sales for the SCS segment decreased by \$2.6 million, or 6.2%, for the second quarter of 2016 compared to the prior corresponding period. The decrease in sales is primarily related to decreased sales to customers in the oil and gas and trucking industries, which were partially offset by increased sales to customers engaged in aircraft components manufacturing and mining. We suspect customers in the oilfield services and oilfield equipment manufacturing industries purchased less from DXP because of the decline in capital spending by oil and gas companies operating in the U.S and Canada. Gross profit as a percentage of sales increased approximately 120 basis points compared to the prior corresponding period primarily as a result of decreased sales of lower margin products to oil and gas and trucking related customers. Excluding amortization, operating income for the SCS segment increased 12.5% primarily as a result of the 120 basis point increase in gross profit as a percentage of sales.

Six Months Ended June 30, 2016 compared to Six Months Ended June 30, 2015

SALES. Sales for the six months ended June 30, 2016 decreased \$155.5 million, or 23.4%, to approximately \$509.8 million from \$665.3 million for the prior corresponding period. Sales by acquired businesses accounted for \$12.1 million of the 2016 sales. Excluding 2016 sales from acquired businesses, on a same store sales basis, sales for the first half of 2016 decreased by \$167.6 million, or 25.2%, from the prior corresponding period. This sales decrease is the result of decreases in our Service Center, IPS and SCS segments of \$122.7 million, \$39.4 million and \$5.5 million, respectively, on a same store sales basis. These variances are explained in segment discussions below.

GROSS PROFIT. Gross profit as a percentage of sales for the six months ended June 30, 2016 decreased by approximately 90 basis points compared with the prior corresponding period. On a same store sales basis, gross profit as a percentage of sales for the six months ended June 30, 2016 decreased by approximately 95 basis points compared with the prior corresponding period. This decline is primarily the result of an approximate 200 basis point decline in the gross profit percentage for our IPS segment and an approximate 90 basis point decline in the gross profit percentage of our Service Centers segment. These declines were partially offset by an approximate 160 basis point increase in the gross profit percentage of the SCS segment. All of the fluctuations are explained in the segment discussions below.

SELLING, GENERAL AND ADMINISTRATIVE. SG&A for the six months ended June 30, 2016 decreased by approximately \$23.7 million, or 15.1%, to \$133.6 million from \$157.3 million for the prior corresponding period. SG&A from acquired businesses accounted for \$4.0 million of the expense. Excluding expenses from acquired businesses, on a same store sales basis, SG&A year-to-date decreased by \$27.7 million, or 17.6%. The overall decline in SG&A, on a same store sales basis, is partially the result of a \$16.3 million decrease in payroll, incentive compensation, payroll taxes and 401(k) expenses due to headcount and salary reductions. As a result of the headcount reductions and additional cost containment measures, meals and entertainment, travel, and vehicle expenses decreased by \$1.8 million. Additionally, same store sales amortization expense declined by \$2.0 million and legal expenses decreased by \$0.5 million as a result of resolving the B27 working capital dispute and a dispute with ITT Goulds. The remaining decline in SG&A expense for the first half of 2016 is consistent with the decrease in sales. As a percentage of sales, the year-to-date 2016 expense, on a same store sales basis, increased to 26.0%, from 23.6% for the prior corresponding period as a result of the percentage decrease in sales discussed above exceeding the percentage decrease in SG&A.

OPERATING INCOME. Operating income for the first six months of 2016 decreased \$25.2 million, or 78.7% compared to the prior corresponding period. Operating loss from acquired businesses increased the decline in operating income by \$0.4 million. Excluding operating loss from acquired businesses, on a same store sales basis, operating income decreased \$24.8 million, or 77.3% from the prior corresponding period. This decrease in operating income is primarily related to the decline in sales and gross profit discussed above.

INTEREST EXPENSE. Interest expense for the first six months of 2016 increased 39.5% from the prior corresponding period primarily as a result of \$1.0 million of write-offs of debt issuance costs combined with increased interest rates. The write-offs of debt issuance costs resulted from the scheduled principal reductions in the term loan and revolving line of credit commitments and shortening of the maturity of the Facility.

INCOME TAXES. Our provision for income taxes differs from the U.S. statutory rate of 35% primarily due to state income taxes, operating losses in our Canadian operations and non-deductible expenses. The effective tax rate for the first six months of 2016 increased to 55.8%, from 38.2% in the prior corresponding period, primarily as a result of the combination of near break-even income, permanent differences and operating losses in our Canadian operations.

SERVICE CENTERS SEGMENT. Sales for the Service Centers segment decreased by \$110.6 million, or 25.1%, for the first six months of 2016 compared to the prior corresponding period. Excluding year-to-date 2016 Service Centers segment sales from acquired businesses of \$12.1 million, Service Centers segment sales for the first six months in 2016 decreased \$122.7 million, or 27.9% from the prior corresponding period, on a same store sales basis. This sales decrease is primarily the result of decreased sales of rotating equipment, bearings, metal working products and safety services to customers engaged in the upstream oil and gas market or manufacturing equipment for the upstream oil and gas market. If crude oil and natural gas prices remain at, or below, prices experienced during the first six months of 2016, this declining level of sales to the upstream oil and gas industry would be expected to continue during the remainder of 2016. Gross profit as a percentage of sales, on a same store sales basis, decreased approximately 90 basis points as a result of declines in sales of higher margin pumps, metal working products and safety services. Excluding amortization, operating income for the Service Centers segment decreased \$21.9 million, or 49.7%. Excluding year-to-date Service Centers segment operating income from acquired businesses of \$0.3 million, Service Centers segment operating income for the first six months in 2016 decreased by \$22.2 million, or 50.4% primarily as a result of the decrease in sales and gross profit percentage discussed above.

INNOVATIVE PUMPING SOLUTIONS SEGMENT. Sales for the IPS segment decreased by \$39.4 million, or 27.9%, for the first six months of 2016 compared to the prior corresponding period. The sales decrease primarily resulted from a decrease in capital spending by our oil and gas related customers. Excluding amortization, operating income for the IPS segment decreased by \$8.7 million, or 60.2%, primarily as a result of the 27.9% decrease in sales as well as an approximate 200 basis point decline in gross profit percentage. The decreased gross profit as a percentage of sales for the IPS segment is the result of competitive pressures resulting in lower margin jobs and unabsorbed manufacturing and fabrication overhead. Additionally, gross profit margins for individual orders for the IPS segment can fluctuate significantly because each order is for a unique package built to customer specifications and subject to varying competition.

SUPPLY CHAIN SERVICES SEGMENT. Sales for the SCS segment decreased by \$5.5 million, or 6.6%, for the first six months of 2016 compared to the prior corresponding period. The decrease in sales is primarily related to decreased sales to customers in the oil and gas and trucking industries, which were partially offset by increased sales to customers engaged in aircraft components manufacturing and mining. We suspect customers in the oilfield services and oilfield equipment manufacturing industries purchased less from DXP because of the decline in capital spending by oil and gas companies operating in the U.S and Canada. Excluding amortization, operating income for the SCS segment increased 9.5% primarily as a result of an approximate 160 basis point increase in gross profit percentage when compared to the first six months of 2015. The increase in gross profit percentage is primarily due to decreased sales of lower margin products to oil and gas and trucking related customers.

BUSINESS ACQUISITIONS, GOODWILL AND SUPPLEMENTAL PRO-FORMA DATA

A key component of our growth strategy includes completing acquisitions of businesses with complementary or desirable product lines, locations or customers. Since 2004, we have completed 31 acquisitions across our three business segments. Below is a summary of recent acquisitions.

On April 1, 2015, the Company completed the acquisition of all of the equity interests of Tool Supply, Inc. (“TSI”) to expand DXP’s cutting tools offering in the Northwest region of the United States. DXP paid approximately \$5.0 million for TSI, which was borrowed under the Facility.

On September 1, 2015, the Company completed the acquisition of all of the equity interests of Cortech Engineering, LLC (“Cortech”) to expand DXP’s rotating equipment offering to the Western seaboard. DXP paid approximately \$14.9 million for Cortech. The purchase was financed with borrowings under the Facility as well as \$4.4 million (148.8 thousand shares) of DXP common stock.

For the three months ended June 30, 2016, businesses acquired during 2015 contributed sales of \$7.2 million and income before taxes of approximately \$59 thousand.

For the six months ended June 30, 2016, businesses acquired during 2015 contributed sales of \$13.1 million and a loss before taxes of approximately \$0.4 million.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed during 2015 in connection with the acquisitions described above (*in thousands*):

	2015	
	TSI	Cortech ¹
Accounts receivable, net	442	2,444
Inventory	475	1,243
Property & equipment	42	253
Goodwill and intangibles	4,929	13,897
Other assets	100	21
Assets acquired	5,988	17,858
Current liabilities assumed	(335)	(2,610)
Non-current liabilities assumed	(653)	(349)
Net assets acquired	\$ 5,000	\$ 14,899

(1) Preliminary allocation.

The pro forma unaudited results of operations for the Company on a consolidated basis for the three and six months ended June 30, 2016 and 2015, assuming the acquisition of businesses completed in 2015 were consummated as of January 1, 2015 are as follows (*in thousands, except per share data*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	\$ 256,215	\$ 329,886	\$ 509,776	\$ 677,324
Net income attributable to DXP Enterprises, Inc.	\$ 5,170	\$ 7,540	\$ 58	\$ 17,684
Per share data attributable to DXP Enterprises, Inc.				
Basic earnings	\$ 0.36	\$ 0.52	\$ 0.00	\$ 1.23
Diluted earnings	\$ 0.34	\$ 0.50	\$ 0.00	\$ 1.16

LIQUIDITY AND CAPITAL RESOURCES

General Overview

As a distributor of MRO products and services, we require significant amounts of working capital to fund inventories and accounts receivable. Additional cash is required for capital items for information technology, warehouse equipment, leasehold improvements, pump manufacturing equipment and safety services equipment. We also require cash to pay our lease obligations and to service our debt.

The Company generated \$11.2 million of cash in operating activities during the six months ended June 30, 2016 compared to \$53.8 million during the prior corresponding period. The decrease between the two periods was primarily driven by reduced earnings and a \$37.1 million smaller reduction in accounts receivable in the 2016 period compared to the 2015 period. The smaller decline in accounts receivable resulted from the smaller decrease in sales in the 2016 period compared to the sales decline in the 2015 period combined with the effect of the number of days sales outstanding in the 2016 period increasing approximately 10% compared to the 2015 period.

During the first half of 2016, the amount available to be borrowed under our credit facility decreased from \$19.8 million at December 31, 2015, to \$10.1 million at June 30, 2016. This decrease in availability is a result of the increase in the Credit facility outstanding balance. We expect that we will be able to comply with the financial covenants in our credit facility through and including June 30, 2017. Because the credit facility matures on March 31, 2018 and the financial covenants become more restrictive after June 30, 2017, we will need to amend our credit facility or obtain alternative financing during the next two years. If such an amendment or alternate financing is not obtained during the next two years, then we believe that the liquidity of our balance sheet and credit facility may not provide us with the ability to meet our working capital needs, scheduled principal payments, capital expenditures and Series B convertible preferred stock dividend payments.

Credit Facility

On July 11, 2012, DXP entered into a credit facility with Wells Fargo Bank National Association, as Issuing Lender, Swingline Lender and Administrative Agent for the lenders (as amended, the "Original Facility"). On January 2, 2014, the Company entered into an Amended and Restated Credit Agreement with Wells Fargo Bank, National Association, as Issuing Lender and Administrative Agent for other lenders (as amended by that certain First Amendment to Amended and Restated Credit Agreement, dated as of August 6, 2015 (the "First Amendment"), that certain Second Amendment to Amended and Restated Credit Agreement, dated as of September 30, 2015 (the "Second Amendment"), that certain Third Amendment to Amended and Restated Credit Agreement, dated as of May 12, 2016 (the "Third Amendment"), and that certain Fourth Amendment to the Amended and Restated Credit Agreement, dated as of August 15, 2016 (the "Fourth Amendment") the "Facility"), amending and restating the Original Facility. Pursuant to the Facility, as of August 15, 2016, the lenders named therein provided to DXP a \$150 million term loan and a \$205 million revolving line of credit. The Facility expires on March 31, 2018. Loans made from the Facility may be used for working capital and general corporate purposes of DXP and its subsidiaries. As of June 30, 2016, the aggregate principal amount of revolving loans outstanding under the facility was \$193.7 million.

Amortization payments are required with respect to the Facility on the last business day of each fiscal quarter, payable at \$12.5 million per quarter for the fiscal quarter periods ending September 30, 2016 through and including December 31, 2016, and payable at \$15.625 million per quarter for the fiscal quarter periods ending March 31, 2017 and thereafter. The Fourth Amendment requires additional term loan principal reductions of \$17 million by December 31, 2016 and \$14 million by March 31, 2017. At June 30, 2016, the aggregate principal amount of term loans outstanding under the Facility was \$150.0 million.

Under the terms of the Fourth Amendment:

- The revolving line of credit was reduced from \$250 million to \$205 million, as of August 15, 2016, and shall be reduced to \$190 million, as of March 31, 2017.
- A permitted overadvance facility (the “Permitted Overadvance Facility”) has been added with amounts to be determined but which shall permit drawings in excess of the ratio of (i) the sum of 85% of net accounts receivable and 65% of net inventory to (ii) the aggregate amount of revolving credit outstandings (the “Asset Coverage Ratio”).
- Certain modifications were made to the pricing grid set forth in the Facility to increase the rate at which the Facility bears interest to a rate equal to LIBOR (or CDOR for Canadian dollar loans) plus 5.00% and Base Rate (or Canadian Base Rate for Canadian dollar loans) plus 4.00%; provided, that drawings under the Permitted Overadvance Facility shall bear interest at a rate equal to LIBOR (or CDOR for Canadian dollar loans) plus 6.00% and Base Rate (or Canadian Base Rate for Canadian dollar loans) plus 5.00%
- The maturity date of the Facility was modified from January 2, 2019 to March 31, 2018.
- Additional mandatory prepayments were added in an amount equal to \$30 million (including \$17 million to be applied to the term loan) by December 31, 2016 and \$25 million (including \$14 million to be applied to the term loan) by March 31, 2017.
- The negative covenants were modified to reduce certain debt baskets, including for purchase money, capital lease and unsecured debt and to limit the ability of the Company to conduct asset sales in excess of \$3.5 million without the consent of the Required Lenders.
- A financial covenant holiday has been provided through June 30, 2017 for the Consolidated Leverage Ratio and the Consolidated Fixed Charge Ratio.
- The minimum Asset Coverage Ratio was adjusted to .95 to 1.00 beginning June 30, 2016.
- A minimum EBITDA and capital expenditure covenant were added to the Facility.”

On June 30, 2016, the LIBOR based rate in effect under the Facility was LIBOR plus 3.25%, the prime based rate of the Facility was prime plus 2.25%. The Fourth Amendment increased the LIBOR based rate under the Facility to LIBOR plus 5.0% and the prime based rate of the Facility to prime plus 4.0% as of August 15, 2016. At June 30, 2016, \$343.7 million was borrowed under the Facility at a weighted average interest rate of approximately 3.72% under the LIBOR options. At June 30, 2016, the Company had \$10.1 million available for borrowing under the Facility.

Commitment fees of 0.50% per annum are payable on the portion of the Facility capacity not in use at any given time on the line of credit. Commitment fees are included as interest in the condensed consolidated statements of operations.

The Facility’s principal financial covenants, pursuant to the Fourth Amendment, included:

Consolidated Leverage Ratio – The Facility requires that the Company’s Consolidated Leverage Ratio, determined at the end of each fiscal quarter, not to exceed 3.50 to 1.00 from July 1, 2017 through December 31, 2017, and not to exceed 3.25 to 1.00 on January 1, 2018 and thereafter. The Consolidated Leverage Ratio is defined as the outstanding indebtedness divided by Consolidated EBITDA for the period of four consecutive fiscal quarters ending on or immediately prior to such date. Indebtedness is defined under the Facility for financial covenant purposes as: (a) all obligations of DXP for borrowed money including but not limited to obligations evidenced by bonds, debentures, notes or other similar instruments; (b) obligations to pay deferred purchase price of property or services; (c) capital lease obligations; (d) obligations under conditional sale or other title retention agreements relating to property purchased; and (e) contingent obligations for funded indebtedness. At June 30, 2016, the Company’s Leverage Ratio was 5.94 to 1.00, but the Facility does not require compliance with a Consolidated Leverage Ratio from June 30, 2016 through June 30, 2017.

Consolidated Leverage Ratio – The Facility requires that the Company’s Consolidated Leverage Ratio, determined at the end of each fiscal quarter, not to exceed 3.50 to 1.00 from July 1, 2017 through December 31, 2017, and not to exceed 3.25 to 1.00 on January 1, 2018 and thereafter. The Consolidated Leverage Ratio is defined as the outstanding indebtedness divided by Consolidated EBITDA for the period of four consecutive fiscal quarters ending on or immediately prior to such date. Indebtedness is defined under the Facility for financial covenant purposes as: (a) all obligations of DXP for borrowed money including but not limited to obligations evidenced by bonds, debentures, notes or other similar instruments; (b) obligations to pay deferred purchase price of property or services; (c) capital lease obligations; (d) obligations under conditional sale or other title retention agreements relating to property purchased; and (e) contingent obligations for funded indebtedness. At June 30, 2016, the Company’s Leverage Ratio was 5.94 to 1.00, but the Facility does not require compliance with a Consolidated Leverage Ratio from June 30, 2016 through June 30, 2017.

Asset Coverage Ratio – The Facility requires that the Asset Coverage Ratio at any time be not less than 0.95 to 1.00 from June 30, 2016 and thereafter, with “Asset Coverage Ratio” defined as the ratio of (a) the sum of 85% of net accounts receivable plus 65% of net inventory to (b) the aggregate outstanding amount of the revolving credit on such date and excluding the Permitted Overadvance Facility. At June 30, 2016, the Company’s Asset Coverage Ratio was 1.00 to 1.00.

Consolidated EBITDA as defined under the Facility for financial covenant purposes means, without duplication, for any period the consolidated net income of DXP plus, to the extent deducted in calculating consolidated net income, depreciation, amortization (except to the extent that such non-cash charges are reserved for cash charges to be taken in the future), non-cash compensation including stock option or restricted stock expense, interest expense and income tax expense for taxes based on income, certain one-time costs associated with our acquisitions, integration costs, facility consolidation and closing costs, severance costs and expenses, write-down of cash expenses incurred in connection with the existing credit agreement and extraordinary losses less interest income and extraordinary gains. Consolidated EBITDA shall be adjusted to give pro forma effect to disposals or business acquisitions assuming that such transaction(s) had occurred on the first day of the period excluding all income statement items attributable to the assets or equity interests that are subject to such disposition made during the period and including all income statement items attributable to property or equity interests of such acquisitions permitted under the Facility.

The following table sets forth the computation of the Leverage Ratio as of June 30, 2016 (*in thousands, except for ratios*):

For the Twelve Months ended June 30, 2016	Leverage Ratio
Loss before taxes	\$ (66,500)
Loss attributable to noncontrolling interest	1,168
Interest expense	13,017
Depreciation and amortization	31,692
Impairment of goodwill and other intangibles	68,735
B27 settlement	7,348
Stock compensation expense	2,669
Pro forma acquisition EBITDA	458
(A) Defined EBITDA	<u>\$ 58,587</u>
As of June, 2016	
Total long-term debt, including current maturities	\$ 347,132
Unamortized debt issuance costs	602
(B) Defined indebtedness	<u>\$ 347,734</u>
Leverage Ratio (B)/(A)	<u>5.94</u>

The following table sets forth the computation of the Fixed Charge Coverage Ratio as of June 30, 2016 (*in thousands, except for ratios*):

For the Twelve Months ended
June 30, 2016

Defined EBITDA	\$ 58,587
Cash paid for income taxes	6,475
Capital expenditures	10,406
(A) Defined EBITDA minus capital expenditures & cash income taxes	<u>\$ 41,706</u>
Cash interest payments	\$ 10,940
Dividends	90
Scheduled principal payments	44,569
(B) Fixed Charges	<u>\$ 55,599</u>
Fixed Charge Coverage Ratio (A)/(B)	<u>0.75</u>

The following table sets forth the computation of the Asset Coverage Ratio as of June 30, 2016 (*in thousands, except for ratios*):

Accounts receivable (net), valued at 85% of gross	\$ 135,275
Inventory, valued at 65% of gross	63,958
Aggregate outstandings	<u>\$ 199,233</u>
Credit facility outstanding balance	\$ 193,738
Outstanding letters of credit	5,928
	<u>\$ 199,666</u>
Asset Coverage Ratio	<u>1.00</u>

Borrowings (in thousands):

	June 30, 2016	December 31, 2015	Increase (Decrease)
Current portion of long-term debt	\$ 112,091 ⁽²⁾	\$ 50,829	\$ 61,262
Long-term debt, less unamortized debt issuance costs	235,041	298,680	(63,639)
Total long-term debt	<u>\$ 347,132</u>	<u>\$ 349,509</u>	<u>\$ (2,377)</u>
Amount available	<u>\$ 10,053⁽¹⁾</u>	<u>\$ 19,754⁽¹⁾</u>	<u>\$ (9,701)</u>

(1) Represents amount available to be borrowed at the indicated date under the Facility under the most restrictive covenant. The decrease in the amount available to be borrowed is the result of the increase in the Credit facility outstanding balance.

(2) The increase in short term debt is due to mandatory prepayments under the Fourth Amendment to the Facility and increased scheduled principal payments.

Performance Metrics (in days):

	Three Months Ended June 30,		Increase (Decrease)
	2016	2015	
Days of sales outstanding	60.1	57.1	3.0
Inventory turns	7.5	8.5	(1.0)

Accounts receivable days of sales outstanding were 60.1 days at June 30, 2016 compared to 57.1 days at June 30, 2015. The 3.0 days increase was primarily due to slower payment times by oil and gas customers. Inventory turns were 7.5 times at June 30, 2016 compared to 8.5 times at June 30, 2015. The decrease is primarily related to our 2016 organic sales decline, which resulted in sales decreasing faster than inventory decreased.

Funding Commitments

We believe our cash generated from operations will meet our normal working capital needs during the next twelve months. We expect we will be able to comply with the financial covenants under the Facility through and including June 30, 2017. Because the credit facility matures on March 31, 2018, and the financial covenants become more restrictive after June 30, 2017, we will need to amend the Facility, or obtain alternative financing including additional debt and/or equity during the next two years. Such alternative financings may include additional bank debt or the public or private sale of debt or equity securities. In connection with any such financing, we may issue securities that substantially dilute the interests of our shareholders. We may not be able to amend the Facility or to obtain alternative financing on attractive terms, if at all.

Share Repurchases

On December 17, 2014, DXP publicly announced an authorization from the Board of Directors that allows DXP from time to time to purchase up to 400,000 shares of DXP's common stock over 24 months. Purchases could be made in the open market or in privately negotiated transactions. DXP has purchased 191,420 shares for \$8.9 million under this authorization as of June 30, 2016. No shares were purchased during 2016.

Acquisitions

All of the Company's acquisitions have been accounted for using the purchase method of accounting. Revenues and expenses of the acquired businesses have been included in the accompanying condensed consolidated financial statements beginning on their respective dates of acquisition. The allocation of purchase price to the acquired assets and liabilities is based on estimates of fair market value.

DISCUSSION OF SIGNIFICANT ACCOUNTING AND BUSINESS POLICIES

Critical accounting and business policies are those that are both most important to the portrayal of a company's financial position and results of operations, and require management's subjective or complex judgments. These policies have been discussed with the Audit Committee of the Board of Directors of DXP.

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("USGAAP"). The accompanying condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and its variable interest entity ("VIE"). The accompanying unaudited condensed consolidated financial statements have been prepared on substantially the same basis as our annual consolidated financial statements and should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2015. For a more complete discussion of our significant accounting policies and business practices, refer to the consolidated annual report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2016. The results of operations for the three months and six months ended June 30, 2016 are not necessarily indicative of results expected for the full fiscal year.

DXP is the primary beneficiary of a VIE in which DXP owns 47.5% of the equity. DXP consolidates the financial statements of the VIE with the financial statements of DXP. As of June 30, 2016, the total assets of the VIE were approximately \$4.7 million including approximately \$4.6 million of property and equipment. DXP is the sole customer of the VIE. Consolidation of the VIE increased cost of sales by approximately \$0.2 and \$0.6 million, respectively for the three and six months ended June 30, 2016. The Company recognized a related income tax benefit of \$50 thousand and \$150 thousand, respectively, related to the VIE for the three and six months ended June 30, 2016. At June 30, 2016, the owners of the 52.5% of the equity not owned by DXP included a former executive officer and other employees of DXP. The Company was not the primary beneficiary of the VIE for the three and six months ended June 30, 2015.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The update aims to simplify aspects of accounting for share-based payment award transactions, including (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*: The update requires organizations that lease assets (“lessees”) to recognize the assets and liabilities for the rights and obligations created by leases with terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee remains dependent on its classification as a finance or operating lease. The criteria for determining whether a lease is a finance or operating lease has not been significantly changed by this ASU. The ASU also requires additional disclosure of the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes*. The update requires entities to present deferred tax assets and liabilities as noncurrent in a classified balance sheet. The update simplifies the current guidance, which requires entities to separately present deferred tax assets and liabilities as current and noncurrent in a classified balance sheet. This pronouncement is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (“ASU 2015-11”)*. The amendments in ASU 2015-11 clarify the subsequent measurement of inventory requiring an entity to subsequently measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU applies only to inventory that is measured using the first-in, first-out (FIFO) or average cost method. Subsequent measurement is unchanged for inventory measured using last-in, first-out (LIFO) or the retail inventory method. The amendments in ASU 2015-11 should be applied prospectively and are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires entities to recognize debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, however, early adoption is permitted. DXP adopted this guidance in the first quarter of 2015 and adjusted the balance sheet for all periods presented.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern* (ASU 2014-15), which asserts that management should evaluate whether there are relevant conditions or events that are known and reasonably knowable that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued or are available to be issued when applicable. If conditions or events at the date the financial statements are issued raise substantial doubt about an entity’s ability to continue as a going concern, disclosures are required which will enable users of the financial statements to understand the conditions or events as well as management’s evaluation and plan. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter; early application is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides guidance on revenue recognition. The core principal of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance requires entities to apply a five-step method to (1) identify the contract(s) with customers; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This pronouncement was originally effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. In April 2015, the FASB approved a proposal to defer the effective date to fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our market risk results from volatility in interest rates. Our exposure to interest rate risk relates primarily to our debt portfolio. Using floating interest rate debt outstanding at June 30, 2016 and 2015, a 100 basis point change in interest rates would result in approximately a \$3.5 million and a \$3.8 million change in annual interest expense, respectively. The decrease from 2015 is primarily the result of paying down debt during 2015.

ITEM 4: CONTROLS AND PROCEDURES.

As of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934) was evaluated by our management with the participation of our President and Chief Executive Officer, David R. Little (principal executive officer), and our Senior Vice President and Chief Financial Officer, Mac McConnell (principal financial officer). Messrs. Little and McConnell have concluded that our disclosure controls and procedures are effective, as of the end of the period covered by this Quarterly Report on Form 10-Q, to help ensure that information we are required to disclose in reports that we file with the SEC is accumulated and communicated to management and recorded, processed, summarized and reported within the time periods prescribed by the SEC.

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter (the quarter ended June 30, 2016) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. While DXP is unable to predict the outcome of these lawsuits, it believes that the ultimate resolution will not have, either individually or in the aggregate, a material adverse effect on DXP’s consolidated financial position, cash flows, or results of operations.

ITEM 1A. RISK FACTORS.

No material changes have occurred from risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

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| 3.1 | Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-61953), filed with Commission on August 20, 1998). |
| 3.2 | Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-4 (Reg. No. 333-10021), filed with the Commission on August 12, 1996). |
| 3.3 | Amendment No. 1 to Bylaws (incorporated by reference to Exhibit A to the Registrant's Current Report on Form 8-K, filed with the Commission on July 28, 2011 (file no. 000-71513)). |
| *10.1 | Fourth Amendment to Restated Credit Agreement dated as of August 15, 2016 by and among DXP Enterprises, Inc., Borrower, and Wells Fargo Bank, National Association, as Issuing Lender, and Administrative Agent for other lenders. |
| 10.2 | Third Amendment to Restated Credit Agreement dated as of May 12, 2016 by and among DXP Enterprises, Inc., Borrower, and Wells Fargo Bank, National Association, as Issuing Lender, and Administrative Agent for other lenders (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarterly period March 31, 2016, filed with the Commission on May 13, 2016). |
| 10.3 | Second Amendment to Restated Credit Agreement dated as of September 30, 2015 by and among DXP Enterprises, Inc., Borrower, and Wells Fargo Bank, National Association, as Issuing Lender, and Administrative Agent for other lenders (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarterly period September 30, 2015, filed with the Commission on November 9, 2015). |
| 10.4 | First Amendment to Restated Credit Agreement dated as of August 6, 2015 by and among DXP Enterprises, Inc., Borrower, and Wells Fargo Bank, National Association, as Issuing Lender, and Administrative Agent for other lenders (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report Form 10-Q for the quarterly period June 30, 2015, filed with the Commission on August 10, 2015). |
| 10.5 | Amended and Restated Credit Agreement dated as of January 2, 2014 by and among DXP Enterprises, Borrower, and Wells Fargo Bank, National Association, as Issuing Lender, and Administrative Agent for other lenders (incorporate by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the Commission on January 6, 2014). |
| *10.6 | DXP Enterprises, Inc. 2016 Omnibus Incentive Plan |
| *10.7 | Form of Restricted Stock Award Agreement |

* 31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.
* 31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended.
* 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
* 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data Files

Exhibits designated by the symbol * are filed with this Quarterly Report on Form 10-Q. All exhibits not so designated are incorporated by reference to a prior filing with the Commission as indicated.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DXP ENTERPRISES, INC.

(Registrant)

By: /s/ MAC McCONNELL

Mac McConnell

Senior Vice-President/Finance and

Chief Financial Officer

(Duly Authorized Signatory and Principal Financial Officer)

Dated: August 15, 2016

FOURTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

This FOURTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment"), dated as of August 15, 2016, is by and among DXP ENTERPRISES, INC., a Texas corporation ("US Borrower"), DXP CANADA ENTERPRISES LTD., a corporation organized under the laws of British Columbia, Canada ("Canadian Borrower" and together with US Borrower, the "Borrowers"), the lenders who are party to this Amendment (the "Consenting Lenders"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

PRELIMINARY STATEMENTS

WHEREAS, the Borrowers, the lenders party thereto (the "Lenders") and the Administrative Agent entered into an Amended and Restated Credit Agreement dated as of January 2, 2014 (as amended hereby and as further amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"); and

WHEREAS, the Borrowers have requested that the Administrative Agent and the Lenders agree to amend the Credit Agreement as specifically set forth herein and, subject to the terms of this Amendment, the Administrative Agent and the Consenting Lenders have agreed to grant such request of the Borrowers.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Capitalized Terms. Capitalized terms not otherwise defined in this Amendment (including without limitation in the introductory paragraph and the Preliminary Statements hereto) shall have the meanings as specified in the Credit Agreement.

Section 2. Amendments to Credit Agreement. Subject to and in accordance with the terms and conditions set forth herein the Administrative Agent and the Consenting Lenders hereto hereby agree as follows:

(a) Amending Section 1.1 of the Credit Agreement by:

(i) amending and restating the definition of "Applicable Rate" to read in its entirety to read as follows:

"Applicable Rate" means the corresponding percentages per annum set forth below:

Commitment Fee	LIBOR Rate and CDOR Rate	Base Rate and Canadian Base Rate
0.50%	5.00%	4.00%

Provided, however, that with respect to any outstanding Permitted Overadvances, the Applicable Rate shall increase from 5.00% to 6.00% per annum for LIBOR Rate Loans and CDOR Rate Loans, and the Applicable Rate shall increase from 4.00% to 5.00% per annum for Base Rate Loans and Canadian Base Rate Loans.

(ii) amending and restating the definition of "Asset Coverage Ratio" in its entirety to read as follows:

" Asset Coverage Ratio " means, as of any date of determination, the ratio of (a) the sum, for the US Borrower and its Subsidiaries on a Consolidated basis, based on the financial statements most recently delivered pursuant to Section 8.1(a) or 8.1(b), as applicable, of (i) eighty-five percent (85%) of Net Accounts Receivable, plus (ii) sixty-five percent (65%) of Net Inventory to (b) the aggregate outstanding amount of the Revolving Credit Outstandings on such date; provided, however, that Permitted Overadvances shall not be included in the calculation of Revolving Credit Outstandings solely for purposes of the calculation of the Asset Coverage Ratio.

(iii) amending and restating the definition of "Canadian Swingline Sublimit" in its entirety to read as follows:

" Canadian Swingline Sublimit " means the lesser of (a) \$2,000,000 and (b) the Swingline Commitment.

(iv) amending the definition of "Revolving Credit Commitment" by adding the following sentences at the end thereof:

"As of the Fourth Amendment Effective Date, the aggregate Revolving Credit Commitment of all the Revolving Credit Lenders shall be equal to \$205,000,000. As of March 31, 2017, the aggregate Revolving Credit Commitment of all the Revolving Credit Lenders shall be \$190,000,000."

(v) amending and restating the definition of "Revolving Credit Maturity Date" in its entirety to read as follows:

" Revolving Credit Maturity Date " means the earliest to occur of (a) March 31, 2018, (b) the date of termination of the entire Revolving Credit Commitment by the US Borrower pursuant to Section 2.5, or (c) the date of termination of the Revolving Credit Commitment pursuant to Section 10.2(a).

(vi) amending and restating the definition of "Swingline Commitment" in its entirety to read as follows:

" Swingline Commitment " means the lesser of (a) \$5,000,000 and (b) the Revolving Credit Commitment.

(vii) amending and restating the definition of "Term Loan Maturity Date" its entirety to read as follows:

" Term Loan Maturity Date " means the first to occur of (a) March 31, 2018, or (b) the date of acceleration of the Term Loans pursuant to Section 10.2(a).

(viii) adding the following defined terms in their appropriate alphabetical order:

" Fourth Amendment " means the Fourth Amendment to Amended and Restated Credit Agreement among the Borrowers, the Administrative Agent and the Lenders party thereto dated as of August 15, 2016.

" Fourth Amendment Effective Date " means August 15, 2016.

" Initial Mandatory Principal Reduction " has the meaning assigned thereto in Section 4.5.

" Permitted Overadvances " means any advance made under the Revolving Credit Facility pursuant to Section 2.7 of this Agreement, and all such advances collectively as the context requires.

(b) amending Section 2.1 of the Credit Agreement by adding the following sentences at the end of such Section 2.1 to read in their entirety as follows:

No Revolving Credit Loans shall be made by the Revolving Credit Lenders to the extent that such Revolving Credit Loans (other than Permitted Overadvances) would cause a violation of the Asset Coverage Ratio set forth in Section 9.12(c) hereof. Notwithstanding anything to the contrary contained in the foregoing, each Revolving Credit Lender severally agrees to make Revolving Credit Loans that include Permitted Overadvances in accordance with the terms and conditions set forth in Section 2.7.

(c) adding Section 2.7 to the Credit Agreement by adding the following provision to read in its entirety as follows:

2.7 Permitted Overadvances. Notwithstanding anything to the contrary contained in this Agreement, at the request of the applicable Borrower in accordance with the provisions of Section 2.3(a) of the Credit Agreement, each Revolving Credit Lender severally agrees to make Revolving Credit Loans (such Revolving Credit Loans, the "Permitted Overadvances") notwithstanding the fact that the aggregate outstanding amount of the Revolving Credit Outstandings (taking into account such Permitted Overadvances) would cause the Asset Coverage Ratio to exceed the ratio set forth in Section 9.12(c); provided, however, that such Permitted Overadvances shall be permitted solely during the months and in the amounts to be determined by the Borrowers and approved by the Required Lenders acting in good faith and in their reasonable discretion following the completion of a review and analysis of the required amount of such Permitted Overadvances that is satisfactory to the Required Lenders in form and substance. The determination of the amount of Permitted Overadvances shall take into consideration the mandatory prepayments required under Section 4.5. For the avoidance of doubt, (a) with respect to each calculation of the Asset Coverage Ratio, to the extent that the availability or borrowing of any Permitted Overadvance causes the Asset Coverage Ratio to exceed the ratio permitted by Section 9.12(c), no Default or Event of Default shall exist solely as a result thereof and (b) the Revolving Credit Outstandings (including any Permitted Overadvances) shall not exceed the Revolving Credit Commitment.

- (d) adding a new Section 4.5 of the Credit Agreement to read in its entirety as follows:

Section 4.5. Additional Mandatory Prepayments. The US Borrower agrees to make a mandatory principal payment or payments of the Loans in an aggregate amount equal to \$30,000,000 on or before December 31, 2016 (the "Initial Mandatory Principal Reduction") and an additional mandatory principal payment or payments equal to \$25,000,000 in the aggregate on or before March 31, 2017. With respect to (a) the Initial Mandatory Principal Reduction, an amount equal to \$17,000,000 shall be applied to the remaining principal installments of the Term Loans, in inverse order of maturity, with the remainder to be applied to the Revolving Credit Facility (without a corresponding reduction in the Revolving Credit Commitment) and (b) the principal prepayment due and payable on or before March 31, 2017, an amount equal to \$14,000,000 shall be applied to the remaining principal installments of the Term Loans, in inverse order of maturity, with the remainder to be applied to the Revolving Credit Facility (without a corresponding reduction in the Revolving Credit Commitment). Notwithstanding anything to the contrary contained in this Agreement, to the extent Net Cash Proceeds from any Debt Issuance, Equity Issuance or Asset Disposition are received that are required to be applied as a mandatory prepayment under Section 4.4(b)(i), (ii) or (iii) hereof, respectively, such Net Cash Proceeds shall instead be permitted to be applied to the mandatory prepayments required under this Section 4.5 and the US Borrower shall be deemed to have satisfied its obligations under Section 4.4, so long as any excess Net Cash Proceeds are applied to the extent required by Section 4.4(b)(i), (ii) or (iii), as applicable.

- (e) amending Section 8.1 of the Credit Agreement by amending and restating subsection (f) thereto to read in its entirety as follows:

(f) Updates to Cash Flow Forecast. On Friday of each week, until such time as the Consolidated Leverage Ratio is less than 4.25 to 1.00, (i) an updated thirteen-week operating budget and cash flow forecast, which shall reflect the US Borrower's good faith projection of all weekly cash receipts and disbursements in connection with the operation of the US Borrower's and its Subsidiaries' business during the thirteen-week period commencing on such Friday, including but not limited to, (A) collections, payroll, capital expenditures and other major cash outlays and (B) a summary of significant changes in such new thirteen-week operating budget and cash flow forecast from the prior operating budget and cash flow forecast most recently delivered and (ii) a report of the US Borrower's and its Subsidiaries' actual cash receipts and disbursements during the previous week, together with a comparison to the budgeted cash receipts and disbursements, as reflected in the most recent thirteen-week budget and cash flow forecast, and an explanation of any material variances; and

(f) amending Section 8.1 of the Credit Agreement by adding a new subsection (g) to read in its entirety as follows:

(g) Monthly Financial Statements. Within thirty (30) days after the end of each of the first two fiscal months of each fiscal quarter, (i) a full profit and loss statement, cash flow report, and an unaudited Consolidated balance sheet of the US Borrower and its Subsidiaries, in each case, for such month and (ii) a listing and aging of the accounts receivable and accounts payable of each Credit Party, prepared in reasonable detail and containing such information as Administrative Agent may reasonably request.

(g) amending Article VIII of the Credit Agreement by adding a new Section 8.17 to read in its entirety as follows:

Section 8.17 Deposit Accounts and Dominion of Funds. Within forty-five (45) days of the Fourth Amendment Effective Date (or such later date as the Administrative Agent may agree in its sole discretion), (a) maintain all deposit, operating and similar bank accounts (excluding (i) payroll, tax and trust accounts and other similar restricted accounts, (ii) local deposit accounts with balances not exceeding an aggregate amount of \$250,000 and (iii) accounts maintained by Indian Fire & Safety not to exceed an aggregate amount of \$500,000 (the “Excluded Accounts”)) with the Administrative Agent or a Lender, with full cash dominion of all such accounts established by the Administrative Agent on terms and conditions reasonably satisfactory to the Administrative Agent and (b) notify Administrative Agent immediately in writing of the establishment or existence of any other bank account, deposit account or other account (other than any Excluded Account) of the US Borrower or any of its Subsidiaries into which money may be deposited (other than with Administrative Agent or a Lender); provided, however, providing any such notice to Administrative Agent shall not waive the occurrence or existence of any Default or Event of Default arising or existing as a result of the establishment or existence of any account(s) in violation of this Section.

(h) amending Section 9.5 of the Credit Agreement by adding the following sentence to the end of such Section to read in its entirety as follows:

Notwithstanding anything contained to the contrary in this Section 9.5, any Asset Dispositions must be satisfactory in form and substance to the Required Lenders to the extent they exceed (x) \$1,000,000 for any single transaction or (y) \$3,500,000 from and after the Fourth Amendment Effective Date.

(i) amending Section 9.1 of the Credit Agreement by amended and restating subsections (c), (e), (j), (k), (l) and (m) to read in their entirety as follows:

(c) unsecured intercompany Indebtedness (i) owed by any US Credit Party to another US Credit Party, (ii) owed by any Canadian Credit Party to another Canadian Credit Party, (iii) owed by any Credit Party to any Non-Guarantor Subsidiary in an aggregate amount not to exceed \$5,000,000 at any one time outstanding (provided that such Indebtedness is subordinated to the Obligations in a manner reasonably satisfactory to the Administrative Agent), (iv) owed by any Non-Guarantor Subsidiary to any other Non-Guarantor Subsidiary, (v) owed by any Foreign Subsidiary to any Credit Party in an aggregate amount not to exceed \$15,000,000 in the aggregate at any one time outstanding, (vi) owed by any Canadian Credit Party to any US Credit Party in an aggregate amount, at any one time outstanding, not to exceed, \$60,000,000 (excluding any Indebtedness permitted pursuant to the following clause (vii)) and (vii) owed by any Canadian Credit Party to any US Credit Party constituting an Investment permitted pursuant to Section 9.3(d)(vii);

(e) purchase money Indebtedness or Capital Lease Obligations in an aggregate amount, at any one time outstanding, not to exceed, an amount equal to five percent (5%) of Consolidated Net Worth;

(j) other Indebtedness in an aggregate principal amount not exceeding, at any one time outstanding, an amount equal to five percent (5%) of Consolidated Net Worth;

(k) Subordinated Indebtedness incurred by the US Borrower; provided that (i) no Default or Event of Default shall have occurred and be continuing or would be caused by the incurrence of such Subordinated Indebtedness, (ii) the Administrative Agent shall have received reasonably satisfactory written evidence that the US Borrower would be in pro forma compliance with each financial covenant set forth in Section 9.12 of this Agreement (determined on a pro forma basis after giving effect to the issuance of any such Subordinated Indebtedness), and (iii) the Net Cash Proceeds of any such Subordinated Indebtedness shall be applied to prepay the Term Loans;

(l) unsecured Indebtedness in the form of debt securities (including such debt securities which are convertible into Equity Interests of the US Borrower) of the US Borrower in an aggregate principal amount of up to \$5,000,000; provided that such Indebtedness shall (i) not mature or require any payment of principal thereof prior to the Term Loan Maturity Date, (ii) have covenants that are not more restrictive (taken as a whole) than those set forth herein, (iii) the Net Cash Proceeds of any such debt securities shall be applied to prepay the Term Loans pursuant to Section 4.4(b)(i), and (iv) no Default or Event of Default shall have occurred and be continuing or would be caused by the incurrence of such debt securities;

(m) unsecured Indebtedness of the US Borrower or any other Credit Party owed to any Seller in connection with a Permitted Acquisition; provided that (i) both immediately prior and after giving effect thereto, (A) no Default or Event of Default shall exist or result therefrom and (B) the US Borrower and its Subsidiaries will be in pro forma compliance with the covenants set forth in Section 9.12 and (ii) such Indebtedness is subordinated on terms reasonably satisfactory to the Administrative Agent and does not exceed \$2,500,000 at any one time outstanding; and

- (j) amending and restating the table found in Section 9.12(a) of the Credit Agreement in its entirety to read as follows:

Period	Maximum Ratio
June 30, 2015 through December 31, 2015	4.25 to 1.00
January 1, 2016 through June 30, 2017	None
July 1, 2017 through December 31, 2017	3.50 to 1.00
January 1, 2018 and thereafter	3.25 to 1.00

- (k) amending and restating the table found in Section 9.12(b) of the Credit Agreement its entirety to read as follows:

Period	Minimum Ratio
June 30, 2015 through December 31, 2015	1.15 to 1.00
January 1, 2016 through June 30, 2017	None
July 1, 2017 and thereafter	1.25 to 1.00

- (l) amending and restating Section 9.12(c) of the Credit Agreement in its entirety to read as follows:

(c) Asset Coverage Ratio. Permit the Asset Coverage Ratio to be at any time less than 0.95 to 1.00, beginning June 30, 2016.

- (m) amending Section 9.12 of the Credit Agreement by adding subsections (d) and (e) thereafter to read in their entirety as follows:

(d) Minimum Consolidated EBITDA. As of the last day of any calendar month ending during the periods specified below, permit Consolidated EBITDA to be less than the corresponding amount set forth below:

Period	Minimum Consolidated EBITDA
July 31, 2016	\$ 49,429,000
August 31, 2016	\$ 45,667,000
September 30, 2016	\$ 43,900,000
October 31, 2016	\$ 43,764,000
November 30, 2016	\$ 44,068,000
December 31, 2016	\$ 39,891,000
January 31, 2017	\$ 40,576,000
February 28, 2017	\$ 42,257,000
March 31, 2017	\$ 43,276,000
April 30, 2017	\$ 41,266,000
May 31, 2017	\$ 39,283,000
June 30, 2017	\$ 36,210,000

(e) Capital Expenditures. Permit the aggregate amount of all Capital Expenditures made by the Credit Parties to exceed \$7,500,000 during any fiscal year.

Section 3. Conditions of Effectiveness. The effectiveness of this Amendment shall be subject to the satisfaction of each of the following conditions precedent:

(a) the Administrative Agent shall have received counterparts of this Amendment executed by each Borrower, each other Credit Party, the Administrative Agent and the Required Lenders;

(b) the representations and warranties of the Borrowers contained in Section 4 of the Credit Agreement shall be true and correct;

(c) the Administrative Agent shall have received, for the account of each Consenting Lender which has delivered its executed signature page to this Amendment by the deadline communicated by the Administrative Agent to the Lenders, a fee in an amount equal to 0.10% times the amount of such Consenting Lender's aggregate Commitment as of the date of this Amendment; and

(d) all reasonable out-of-pocket costs and expenses incurred by the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Amendment and the other instruments and documents to be delivered hereunder (including, without limitation, the reasonable fees, charges and disbursements of legal counsel for the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Amendment) shall have been paid by the Borrowers.

Section 4. Representations and Warranties of the Borrowers. Each Borrower represents and warrants as follows:

(a) The execution, delivery and performance by such Borrower of its obligations in connection with this Amendment are within its corporate (or other organizational) powers, have been duly authorized by all necessary corporate (or other organizational) action and do not and will not (i) violate any provision of its articles or certificate of incorporation or bylaws or similar organizing or governing documents of such Borrower, (ii) contravene any Applicable Law which is applicable to such Borrower, (iii) conflict with, result in a breach of or constitute (with notice, lapse of time or both) a default under any material indenture or instrument or other material agreement to which such Borrower is a party, by which it or any of its properties is bound or to which it is subject, or (iv) except for the Liens granted in favor of the Administrative Agent pursuant to the Security Documents, result in or require the creation or imposition of any Lien upon any of its properties or assets, except, in the case of clauses (ii) and (iii) above, to the extent such contraventions, conflicts, breaches or defaults could not reasonably be expected to have a Material Adverse Effect.

(b) Such Borrower has taken all necessary corporate (or other organizational) action to execute, deliver and perform this Amendment and has validly executed and delivered each of this Amendment. This Amendment constitutes the legal, valid and binding obligation of such Borrower enforceable against such Borrower in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally, by general equitable principles or by principles of good faith and fair dealing.

(c) No material consent, approval, authorization or other action by, notice to, or registration or filing with, any Governmental Authority or other Person is or will be required as a condition to or otherwise in connection with the due execution, delivery and performance by such Borrower of this Amendment except such as have been obtained or made and are in full force and effect and except filings necessary to perfect Liens created under the Loan Documents.

(d) After giving effect to this Amendment, the representations and warranties contained in each of the Loan Documents are true and correct in all material respects on and as of the date hereof as though made on and as of such date (other than any such representations or warranties that, by their terms, refer to a specific date, in which case as of such specific date).

(e) No Default or Event of Default shall exist immediately prior to and after giving effect to this Amendment.

Section 5. Reference to and Effect on the Loan Documents. On and after the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the Notes and each of the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this Amendment and this Amendment shall constitute a Loan Document.

(a) The Credit Agreement, the Notes and each of the other Loan Documents, as specifically amended by this Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed. Without limiting the generality of the foregoing, the Security Documents and all of the Collateral described therein do and shall continue to secure the payment of all Obligations of the Credit Parties under the Loan Documents, in each case as amended or converted by this Amendment.

(b) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Administrative Agent under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

Section 6. Reaffirmations. Each Credit Party (a) consents to this Amendment and agrees that the transactions contemplated by this Amendment shall not limit or diminish the obligations of such Person, or release such Person from any obligations, under any of the Loan Documents to which it is a party, (b) confirms and reaffirms its obligations under each of the Loan Documents to which it is a party and (c) agrees that each of the Loan Documents to which it is a party remain in full force and effect and are hereby ratified and confirmed.

Section 7. Execution in Counterparts. This Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or in electronic (*i.e.* , " pdf " or " tif ") format shall be effective as delivery of a manually executed counterpart of this Amendment.

Section 8. Governing Law. This Amendment and any claim, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Amendment and the transactions contemplated hereby and thereby shall be governed by, and construed in accordance with, the law of the State of New York.

Section 9. Entire Agreement. This Amendment and the other Loan Documents, and any separate letter agreements with respect to fees payable to the Administrative Agent, the Issuing Lender, each Swingline Lender and/or the Arranger, constitute the entire agreement among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

Section 10. RELEASE. For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Credit Party hereby, for itself and its successors and assigns, fully and without reserve, releases, acquits, and forever discharges each Secured Party, its respective successors and assigns, officers, directors, employees, representatives, trustees, attorneys, agents and affiliates (collectively the " Released Parties " and individually a " Released Party ") from any and all actions, claims, demands, causes of action, judgments, executions, suits, liabilities, costs, damages, expenses or other obligations of any kind and nature whatsoever, direct and/or indirect, at law or in equity, whether now existing or hereafter asserted, whether absolute or contingent, whether due or to become due, whether disputed or undisputed, whether known or unknown (INCLUDING, WITHOUT LIMITATION, ANY OFFSETS, REDUCTIONS, REBATEMENT, CLAIMS OF USURY OR CLAIMS WITH RESPECT TO THE NEGLIGENCE OF ANY RELEASED PARTY) (collectively, the " Released Claims "), for or because of any matters or things occurring, existing or actions done, omitted to be done, or suffered to be done by any of the Released Parties, in each case, on or prior to the effective date of this Amendment and are in any way directly or indirectly arising out of or in any way connected to any of this Amendment, the Credit Agreement or any other Loan Document (collectively, the " Released Matters "). In entering into this Amendment, each Credit Party consulted with, and has been represented by, legal counsel and expressly disclaim any reliance on any representations, acts or omissions by any of the Released Parties and hereby agrees and acknowledges that the validity and effectiveness of the releases set forth herein do not depend in any way on any such representations, acts and/or omissions or the accuracy, completeness or validity hereof. The provisions of this Section 10 shall survive the termination of this Amendment, the Credit Agreement and the other Credit Documents and payment in full of the Obligations.

Section 11. **No Oral Agreements**. This Amendment, the Credit Agreement as amended by this Amendment, the Notes, and the other Credit Documents constitute the entire understanding among the parties hereto with respect to the subject matter hereof and supersede any prior agreements, written or oral, with respect thereto.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

DXP ENTERPRISES, INC.,
as US Borrower

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Senior Vice President, Chief Financial Officer and Secretary

DXP CANADA ENTERPRISES LTD.,
as Canadian Borrower

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Chief Financial Officer

DXP HOLDINGS, INC.,
as a US Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Vice President

PMI OPERATING COMPANY, LTD.,
as a US Subsidiary Guarantor

By: PUMP-PMI, LLC,
as General Partner

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Secretary and Treasurer

PMI INVESTMENT, LLC,
as a US Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Secretary and Treasurer

PUMP-PMI, LLC,
as a US Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Secretary and Treasurer

VERTEX CORPORATE HOLDINGS, INC.,
as a US Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Vice President, Secretary and Treasurer

VERTEX-PFI, INC.,
as a US Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Vice President and Secretary

PFI, LLC,
as a US Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Vice President and Secretary

B27 HOLDINGS CORP.,
as Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Vice President, Chief Financial Officer and Secretary

B27, LLC,
as a US Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Vice President and Chief Financial Officer

B27 RESOURCES, INC.,
as a US Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Vice President and Chief Financial Officer

BEST HOLDING, LLC,
as Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Vice President and Chief Financial Officer

BEST EQUIPMENT SERVICE & SALES COMPANY, LLC,
as Subsidiary Guarantor

By: /s/ Kent Yee
Name: Kent Yee
Title: Secretary

PUMPWORKS 610, LLC,
as Subsidiary Guarantor

By: /s/ Kent Yee
Name: Kent Yee
Title: Secretary

INTEGRATED FLOW SOLUTIONS, LLC,
as a US Subsidiary Guarantor

By: /s/ Kent Yee
Name: Kent Yee
Title: Secretary

INDUSTRIAL PARAMEDIC SERVICES LTD.,
as a Canadian Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Director

HSE INTEGRATED LTD.,
as a Canadian Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Senior Vice President

NATIONAL PROCESS EQUIPMENT INC.,
as a Canadian Subsidiary Guarantor

By: /s/ Mac McConnell
Name: Mac McConnell
Title: Chief Financial Officer

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent, Issuing Lender, Swingline Lender, and Lender

By: /s/ Jennifer L. Norris
Name: Jennifer L. Norris
Title: Senior Vice President

BANK OF AMERICA, N.A.,
as Lender

By: /s/ Anthony D. Healey
Name: Anthony D. Healey
Title: Senior Vice President

BRANCH BANKING AND TRUST COMPANY,
as Lender

By: /s/ Mary McElwain
Name: Mary McElwain
Title: Senior Vice President

CADENCE BANK,
as Lender

By: /s/ Bill Bobbora
Name: William Bobbora
Title: Executive Vice President

COMPASS BANK,
as Lender

By: /s/ Albert M. Watson
Name: Albert M. Watson
Title: Senior Vice President

JPMORGAN CHASE BANK, N.A.,
as Lender

By: /s/ Laura Woodward
Name: Laura Woodward
Title: Vice President

ACKNOWLEDGED BY:

JPMORGAN CHASE BANK, N.A., TORONTO BRANCH,
as its Applicable Designee

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Name: Michael N. Tam
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ROYAL BANK OF CANADA,
as Lender

By: /s/ Greg Smith
Name: Greg Smith
Title: Director

U.S. BANK NATIONAL ASSOCIATION,
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By: /s/ David C. Heyson
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as Lender

By: /s/ Jeremy A. Newsom
Name: Jeremy A. Newsom
Title: Executive Vice President

FOURTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT – Signature Page

DXP ENTERPRISES, INC.
2016 OMNIBUS INCENTIVE PLAN

(As Adopted April 15, 2016)

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ARTICLE I	ESTABLISHMENT, PURPOSE AND DURATION	1
1.1	Establishment	1
1.2	Purpose of the Plan	1
1.3	Duration of the Plan	1
ARTICLE II	DEFINITIONS	1
2.1	“Adoption Date”	1
2.2	“Affiliate”	1
2.3	“Cash Performance Award”	1
2.4	“Authorized Shares”	2
2.5	“Award”	2
2.6	“Award Agreement”	2
2.7	“Beneficial Owner”	2
2.8	“Board”	2
2.9	“Change of Control”	2
2.10	“Code”	3
2.11	“Committee”	3
2.12	“Company”	3
2.13	“Compensation Committee”	3
2.14	“Corporate Change”	3
2.15	“Covered Employee”	3
2.16	“Disability”	3
2.17	“Dividend Equivalent”	4
2.18	“Employee”	4
2.19	“Exchange Act”	4
2.20	“Fair Market Value”	4
2.21	“Holder”	4
2.22	“Incentive Stock Option” or “ISO”	5
2.23	“Mature Shares”	5
2.24	“Minimum Statutory Tax Withholding Obligation”	5
2.25	“Non-Employee Director”	5
2.26	“Nonqualified Stock Option” or “NQSO”	5
2.27	“Option”	5
2.28	“Optionee”	5
2.29	“Option Price”	5
2.30	“Other Cash-Based Award”	5
2.31	“Other Stock-Based Award”	5
2.32	“Parent Corporation”	5
2.33	“Performance-Based Compensation”	5
2.34	“Performance Goals”	5
2.35	“Performance Stock Award”	5
2.36	“Performance Unit Award”	5
2.37	“Period of Restriction”	5
2.38	“Plan”	6
2.39	“Restricted Stock”	6
2.40	“Restricted Stock Award”	6
2.41	“Restricted Stock Unit” or “RSU”	6
2.42	“Retire” or “Retirement”	6

2.43	“RSU Award”	6
2.44	“Separation from Service”	6
2.45	“Stock Appreciation Right” or “SAR”	6
2.46	“Section 409A”	6
2.47	“Stock”	6
2.48	“Subsidiary Corporation”	6
2.49	“Substantial Risk of Forfeiture”	6
2.50	“Ten Percent Stockholder”	6
2.51	“Termination of Employment”	6
2.52	“Termination of Service”	7
2.53	“Third Party Service Provider”	7
2.54	“Voting Stock”	7
ARTICLE III ELIGIBILITY AND PARTICIPATION		7
3.1	Eligibility	7
3.2	Participation	7
ARTICLE IV GENERAL PROVISIONS RELATING TO AWARDS		8
4.1	Authority to Grant Awards	8
4.2	Shares That Count Against Limit	8
4.3	Non-Transferability	9
4.4	Requirements of Law	9
4.5	Changes in the Company’s Capital Structure	9
4.6	Election Under Section 83(b) of the Code	12
4.7	Forfeiture for Cause	12
4.8	Forfeiture Events	13
4.9	Recoupment in Restatement Situations	13
4.10	Award Agreements	13
4.11	Rights as Stockholder	14
4.12	Issuance of Shares of Stock	14
4.13	Restrictions on Stock Received	14
4.14	Compliance With Section 409A	14
4.15	Date of Grant	14
4.16	Source of Shares Deliverable Under Awards	14
4.17	Limitations on Vesting of Awards	15
ARTICLE V OPTIONS		15
5.1	Authority to Grant Options	15
5.2	Type of Options Available	15
5.3	Option Agreement	15
5.4	Option Price	15
5.5	Duration of Option	15
5.6	Amount Exercisable	15
5.7	Exercise of Option	16
5.8	Notification of Disqualifying Disposition	17
5.9	No Rights as Stockholder	17
5.10	\$100,000 Limitation on ISOs	17
5.11	Separation from Service	17

ARTICLE VI	STOCK APPRECIATION RIGHTS	17
6.1	Authority to Grant SAR Awards	17
6.2	General Terms	17
6.3	SAR Agreement	17
6.4	Term of SAR	18
6.5	Exercise of SARs	18
6.6	Payment of SAR Amount	18
6.7	Separation from Service	18
6.8	No Rights as Stockholder	18
6.9	Restrictions on Stock Received	18
ARTICLE VII	RESTRICTED STOCK AWARDS	18
7.1	Restricted Stock Awards	18
7.2	Restricted Stock Award Agreement	19
7.3	Holder's Rights as Stockholder	19
ARTICLE VIII	RESTRICTED STOCK UNIT AWARDS	19
8.1	Authority to Grant RSU Awards	19
8.2	RSU Award	19
8.3	RSU Award Agreement	19
8.4	Dividend Equivalents	19
8.5	Form of Payment Under RSU Award	19
8.6	Time of Payment Under RSU Award	19
8.7	Holder's Rights as Stockholder	20
ARTICLE IX	PERFORMANCE STOCK AWARDS AND PERFORMANCE UNIT AWARDS	20
9.1	Authority to Grant Performance Stock Awards and Performance Unit Awards	20
9.2	Performance Goals and Performance Criteria	20
9.3	Time of Establishment of Performance Goals	23
9.4	Written Agreement	23
9.5	Form of Payment Under Performance Unit Award	23
9.6	Time of Payment Under Performance Unit Award	23
9.7	Holder's Rights as Stockholder With Respect to a Performance Stock Award	23
9.8	Increases Prohibited	23
9.9	Stockholder Approval	23
9.10	Dividend Equivalents	23
ARTICLE X	CASH PERFORMANCE AWARDS	24
10.1	Authority to Grant Cash Performance Awards	24
10.2	Covered Employees	24
10.3	Written Agreement	24
10.4	Form of Payment Under Cash Performance Award	24
10.5	Time of Payment Under Cash Performance Award	24
ARTICLE XI	OTHER STOCK-BASED AWARDS	24
11.1	Authority to Grant Other Stock-Based Awards	24
11.2	Value of Other Stock-Based Award	24
11.3	Written Agreement	24
11.4	Payment of Other Stock-Based Award	25
11.5	Separation from Service	25
11.6	Time of Payment of Other Stock-Based Award	25

ARTICLE XII	OTHER CASH-BASED AWARDS	25
12.1	Authority to Grant Other Cash-Based Awards	25
12.2	Value of Other Cash-Based Award	25
12.3	Written Agreement	25
12.4	Payment of Other Cash-Based Award	25
12.5	Time of Payment of Other Cash-Based Award	25
12.6	Separation from Service	25
ARTICLE XIII	SUBSTITUTION AWARDS	26
ARTICLE XIV	NON-EMPLOYEE DIRECTOR AWARDS	26
ARTICLE XV	ADMINISTRATION	26
15.1	Awards	26
15.2	Authority of the Committee	26
15.3	Decisions Binding	27
15.4	No Liability	27
ARTICLE XVI	AMENDMENT OR TERMINATION OF PLAN OR AWARD AGREEMENT	28
16.1	Amendment, Modification, Suspension, and Termination of the Plan	28
16.2	Amendment, Modification, Suspension, and Termination of Award Agreement	28
16.3	Awards Previously Granted	28
ARTICLE XVII	MISCELLANEOUS	28
17.1	Unfunded Plan/No Establishment of a Trust Fund	28
17.2	No Employment Obligation	28
17.3	Tax Withholding	29
17.4	Gender and Number	29
17.5	Severability	29
17.6	Headings	29
17.7	Other Compensation Plans	29
17.8	Retirement and Welfare Plans	30
17.9	Other Awards	30
17.10	Law Limitations/Governmental Approvals	30
17.11	Delivery of Title	30
17.12	Inability to Obtain Authority	30
17.13	Investment Representations	30
17.14	Persons Residing Outside of the United States	30
17.15	No Fractional Shares	30
17.16	Interpretation	31
17.17	Governing Law; Venue	31

DXP ENTERPRISES, INC.
2016 OMNIBUS INCENTIVE PLAN

(As Adopted April 15, 2016)

ARTICLE I

ESTABLISHMENT, PURPOSE AND DURATION

1.1 **Establishment.** The Company hereby establishes an incentive compensation plan, to be known as the “ *DXP Enterprises, Inc. 2016 Omnibus Incentive Plan* ”, as set forth in this document. The Plan permits the grant of Options (both Incentive Stock Options and Nonqualified Stock Options), SARs, Restricted Stock, RSUs, Performance Stock Awards, Performance Unit Awards, Cash Performance Awards, Other Stock-Based Awards and Other Cash-Based Awards. The Plan was adopted by the Board on April 15, 2016 (the “ *Adoption Date* ”) and approved by the Company’s stockholders on June 20, 2016 .

1.2 **Purpose of the Plan.** The Plan is intended to advance the interests of the Company, its Affiliates and its stockholders and promote the long-term growth of the Company by providing Employees, Non-Employee Directors and Third-Party Service Providers with incentives to maximize stockholder value and to otherwise contribute to the success of the Company and its Affiliates, thereby aligning the interests of such individuals with the interests of the Company’s stockholders and providing them additional incentives to continue in their employment or affiliation with the Company or its Affiliates.

1.3 **Duration of the Plan.** The Plan shall continue indefinitely until it is terminated pursuant to Section 16.1. The applicable provisions of the Plan will continue in effect with respect to an Award granted under the Plan for as long as such Award remains outstanding. Notwithstanding the foregoing, no Incentive Stock Option may be granted under the Plan on or after the tenth anniversary of the Adoption Date.

ARTICLE II

DEFINITIONS

Each word and phrase defined in this Article shall have the meaning set out below throughout the Plan, unless the context in which any such word or phrase appears reasonably requires a broader, narrower or different meaning.

2.1 “ *Adoption Date* ” shall have the meaning ascribed to that term in Section 1.1.

2.2 “ *Affiliate* ” means any corporation, partnership, limited liability company or association, trust or other entity or organization which, directly or indirectly, controls, is controlled by, or is under common control with, the Company. For purposes of the preceding sentence, “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”), as used with respect to any entity or organization, shall mean the possession, directly or indirectly, of the power (a) to vote more than fifty percent (50%) of the securities having ordinary voting power for the election of directors or comparable individuals of the controlled entity or organization, or (b) to direct or cause the direction of the management and policies of the controlled entity or organization, whether through the ownership of voting securities or by contract or otherwise.

2.3 “ *Cash Performance Award* ” means an Award granted pursuant to Article X to an individual who is then a key executive Employee.

2.4 “ **Authorized Shares** ” shall have the meaning ascribed to that term in Section 4.1(a).

2.5 “ **Award** ” means, individually or collectively, a grant under the Plan of an Incentive Stock Option, a Nonqualified Stock Option, a SAR, Restricted Stock, a RSU, a Performance Stock Award, a Performance Unit Award, a Cash Performance Award, an Other Stock-Based Award or an Other Cash-Based Award, in each case subject to the terms and provisions of the Plan.

2.6 “ **Award Agreement** ” means either (a) a written or electronic agreement entered into by the Company and a Award recipient that sets forth the terms and conditions applicable to an Award granted under the Plan, or (b) a written or electronic statement issued by the Company to a Participant that sets forth the terms and conditions applicable to an Award granted under the Plan.

2.7 “ **Beneficial Owner** ” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

2.8 “ **Board** ” means the Board of Directors of the Company.

2.9 “ **Change of Control** ” means the occurrence of any one or more of the following events following the date on which the applicable Award is granted:

(a) a report on Schedule 13D or Schedule 14D-1 (or any successor schedule, form or report) shall be filed with the Securities and Exchange Commission pursuant to the Exchange Act and that report discloses that any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Exchange Act), other than the Company (or one of its subsidiaries) or any employee benefit plan sponsored by the Company (or one of its subsidiaries), is the beneficial owner (as that term is defined in Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act), directly or indirectly, of 20 percent or more of the outstanding Voting Stock;

(b) any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Exchange Act), other than the Company (or one of its subsidiaries) or any employee benefit plan sponsored by the Company (or one of its subsidiaries), shall purchase securities pursuant to a tender offer or exchange offer to acquire any Voting Stock (or any securities convertible into Voting Stock) and, immediately after consummation of that purchase, that person is the beneficial owner (as that term is defined in Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act), directly or indirectly, of 20 percent or more of the outstanding Voting Stock (such person's beneficial ownership to be determined, in the case of rights to acquire Voting Stock, pursuant to paragraph (d) of Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act);

(c) the consummation of:

(i) a merger, consolidation or reorganization of the Company with or into any other person if as a result of such merger, consolidation or reorganization, fifty percent (50%) or less of the combined voting power of the then-outstanding securities of such other person immediately after such merger, consolidation or reorganization are held in the aggregate by the holders of outstanding Voting Stock immediately prior to such merger, consolidation or reorganization;

(ii) any sale, lease, exchange or other transfer of all or substantially all the assets of the Company and its consolidated subsidiaries to any other person if as a result of such sale, lease, exchange or other transfer, fifty percent (50%) or less of the combined voting power of the then-outstanding securities of such other person immediately after such sale, lease, exchange or other transfer are held in the aggregate by the holders of outstanding Voting Stock immediately prior to such sale, lease, exchange or other transfer; or

(iii) a transaction immediately after the consummation of which any person (within the meaning of Section 13(d) or Section 14(d) (2) of the Exchange Act) would be the beneficial owner (as that term is defined in Rule 13d-3 or any successor rule or regulation promulgated under the Exchange Act), directly or indirectly, of more than fifty percent (50%) of the outstanding Voting Stock;

(iv) the stockholders of the Company approve the dissolution of the Company; or

(v) during any period of 12 consecutive months, the individuals who at the beginning of that period constituted the members of the Board shall cease to constitute a majority of the Board, unless the election, or the nomination for election by the Company's stockholders, of each member of the Board first elected during such period was approved by a vote of at least a two-thirds majority of the Board then still in office who were members of the Board at the beginning of any such period.

2.10 “**Code**” means the United States Internal Revenue Code of 1986, as amended from time to time.

2.11 “**Committee**” means (a) in the case of an Award granted to a Non-Employee Director, the Board, and (b) in the case of any other Award granted under the Plan, the Compensation Committee or, if the Compensation Committee chooses to delegate its duties, a committee of at least two persons who are members of the Compensation Committee and are appointed by the Compensation Committee to administer the Plan. Each member of the Committee in respect of his or her participation in any decision with respect to an Award that is intended to satisfy the requirements of section 162(m) of the Code must satisfy the requirements of “outside director” status within the meaning of section 162(m) of the Code; *provided*, however, that the failure to satisfy such requirement shall not affect the validity of the action of any committee otherwise duly authorized and acting in the matter. As to Awards that are authorized by the Committee and that are intended to be exempt under Rule 16b-3 of the General Rules and Regulations under the Exchange Act, the requirements of Rule 16b-3(d)(1) of the General Rules and Regulations under the Exchange Act with respect to committee action must also be satisfied.

2.12 “**Company**” means DXP Enterprises, Inc., a Texas corporation, or any successor (by reincorporation, merger or otherwise).

2.13 “**Compensation Committee**” means the Compensation Committee of the Board.

2.14 “**Corporate Change**” shall have the meaning ascribed to that term in [Section 4.5\(c\)](#).

2.15 “**Covered Employee**” means an Employee who is a “covered employee,” as defined in section 162(m) of the Code and the regulations and other guidance promulgated by the United States Department of Treasury or the Internal Revenue Service under section 162(m) of the Code, or any successor statute.

2.16 “**Disability**” means, as determined by the Committee in its discretion exercised in good faith, (a) in the case of an Award that is exempt from the application of the requirements of Section 409A and is granted to a Holder who is covered by the Company’s long-term disability insurance policy or plan, a physical or mental condition of the Holder that would entitle him or her to payment of disability income payments under such long-term disability insurance policy or plan as then in effect, (b) in the case of an Award that is exempt from the application of the requirements of Section 409A and is granted to a Holder who is not covered by the Company’s long-term disability insurance policy or plan for whatever reason, or in the event the Company does not maintain such a long-term disability insurance policy or plan, and for purposes of an ISO granted under the Plan, a permanent and total disability as defined in section 22(e)(3) of the Code and (c) in the case of an Award that is not exempt from the application of the requirements of Section 409A, a physical or mental condition of the Holder where (i) the Holder is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) the Holder is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Company. A determination of Disability may be made by a physician selected or approved by the Committee and, in this respect, the Holder shall submit to an examination by such physician upon request by the Committee.

2.17 “ **Dividend Equivalent** ” means a payment equivalent in amount to a dividend paid with respect to a share of the Stock to the Company’s stockholders.

2.18 “ **Employee** ” means (a) a person employed by the Company or any Affiliate as a common law employee and (b) a person who has agreed to become a common law employee of the Company or any Affiliate and is expected to become such within three (3) months after the date of grant of the Award.

2.19 “ **Exchange Act** ” means the Securities Exchange Act of 1934, as amended, or any successor act.

2.20 “ **Fair Market Value** ” of the Stock as of any particular date means,

(a) if the Stock is traded on a stock exchange,

(i) and if the Stock is traded on that date, the closing sale price of the Stock on that date; or

(ii) and if the Stock is not traded on that date, the closing sale price of the Stock on the last trading date immediately preceding that date;

as reported on the principal securities exchange on which the Stock is traded; or

(b) if the Stock is traded in the over-the-counter market,

(i) and if the Stock is traded on that date, the average between the high bid and low asked price on that date; or

(ii) and if the Stock is not traded on that date, the average between the high bid and low asked price on the last trading date immediately preceding that date;

as reported in such over-the-counter market; *provided*, however, that (x) if the Stock is not so traded, or (y) if, in the discretion of the Committee, another means of determining the fair market value of a share of Stock at such date shall be necessary or advisable, the Committee may provide for another method or means for determining such fair market value, which method or means shall comply with the requirements of a reasonable valuation method as described under Section 409A.

2.21 “ **Holder** ” means a person who has been granted an Award or any person who is entitled to receive shares of Stock or cash under an Award.

- 2.22 “ **Incentive Stock Option** ” or “ **ISO** ” means an option to purchase Stock granted pursuant to Article V that is designated as an incentive stock option and that is intended to satisfy the requirements of section 422 of the Code.
- 2.23 “ **Mature Shares** ” means shares of Stock that the Holder has held for at least six months, but not including any shares of Restricted Stock.
- 2.24 “ **Minimum Statutory Tax Withholding Obligation** ” means, with respect to an Award, the amount the Company, an Affiliate or other subsidiary is required to withhold for federal, state, local and foreign taxes based upon the applicable minimum statutory withholding rates required by the relevant tax authorities.
- 2.25 “ **Non-Employee Director** ” means a member of the Board who is not an Employee.
- 2.26 “ **Nonqualified Stock Option** ” or “ **NQSO** ” means a “nonqualified stock option” to purchase Stock granted pursuant to Article V that does not satisfy the requirements of section 422 of the Code (any Option granted under the Plan that is not expressly designated as an ISO shall be deemed to be designated a nonqualified stock option under the Plan).
- 2.27 “ **Option** ” means an Incentive Stock Option or a Nonqualified Stock Option.
- 2.28 “ **Optionee** ” means a person who is granted an Option under the Plan.
- 2.29 “ **Option Price** ” shall have the meaning ascribed to that term in Section 5.4.
- 2.30 “ **Other Cash-Based Award** ” means an Award granted pursuant to Article XII.
- 2.31 “ **Other Stock-Based Award** ” means an equity-based or equity-related Award not otherwise described by the terms and provisions of the Plan that is granted pursuant to Article XI.
- 2.32 “ **Parent Corporation** ” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the action or transaction, each of the corporations other than the Company owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.
- 2.33 “ **Performance-Based Compensation** ” means compensation under an Award that is intended to satisfy the requirements of section 162(m) of the Code for deductibility of remuneration paid to Covered Employees.
- 2.34 “ **Performance Goals** ” means one or more of the criteria described in Section 9.2 on which the performance goals applicable to an Award are based .
- 2.35 “ **Performance Stock Award** ” means an Award designated as a performance stock award granted to a Holder pursuant to Article IX.
- 2.36 “ **Performance Unit Award** ” means an Award designated as a performance unit award granted to a Holder pursuant to Article IX.
- 2.37 “ **Period of Restriction** ” means the period during which Restricted Stock is subject to a substantial risk of forfeiture (based on the passage of time, the achievement of Performance Goals, or upon the occurrence of other events as determined by the Committee, in its discretion), as provided in Article VII.

- 2.38 “**Plan**” means the DXP Enterprises, Inc. 2016 Omnibus Incentive Plan, as set forth in this document as it may be amended from time to time.
- 2.39 “**Restricted Stock**” means shares of restricted Stock issued or granted under the Plan pursuant to Article VII.
- 2.40 “**Restricted Stock Award**” means an authorization by the Committee to issue or transfer Restricted Stock to a Holder.
- 2.41 “**Restricted Stock Unit**” or “**RSU**” means a restricted stock unit credited to a Holder’s ledger account maintained by the Company pursuant to Article VIII.
- 2.42 “**Retire**” or “**Retirement**” means, in the case of an Employee, the termination of the Employee’s employment with the Company and all Affiliates by the Employee after the Employee has attained the age of 65 and, in the case of a Non-Employee Director, cessation of the Non-Employee Director’s services as a Non-Employee Director after completing either six full terms or six years of service as a Non-Employee Director.
- 2.43 “**RSU Award**” means an Award granted pursuant to Article VIII.
- 2.44 “**Separation from Service**” means a Termination of Employment in the case of an Award granted to an Employee or a Termination of Service in the case of an Award granted to a Non-Employee Director or a Third Party Service Provider.
- 2.45 “**Stock Appreciation Right**” or “**SAR**” means a stock appreciation right granted under the Plan pursuant to Article VI.
- 2.46 “**Section 409A**” means section 409A of the Code and the regulations and other guidance promulgated by the United States Department of Treasury or the United States Internal Revenue Service under section 409A of the Code, or any successor statute.
- 2.47 “**Stock**” means the common stock of the Company, \$0.01 par value per share (or such other par value as may be designated by act of the Company’s stockholders).
- 2.48 “**Subsidiary Corporation**” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the action or transaction, each of the corporations other than the last corporation in an unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.
- 2.49 “**Substantial Risk of Forfeiture**” shall have the meaning ascribed to that term in Section 409A.
- 2.50 “**Ten Percent Stockholder**” means an individual, who, at the time the applicable Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent Corporation or Subsidiary Corporation. An individual shall be considered as owning the stock owned, directly or indirectly, by or for his or her brothers and sisters (whether by the whole or half blood), spouse, ancestors, and lineal descendants; and stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust, shall be considered as being owned proportionately by or for its stockholders, partners, or beneficiaries.
- 2.51 “**Termination of Employment**” means, except as otherwise provided in the case of an ISO in the following sentence of this Section 2.51, (a) if the Award Agreement is not exempt from and is subject to Section 409A the termination of the Award recipient’s employment with the Company and all Affiliates in a manner that constitutes a “separation from service” (as that term is defined for purposes of Section 409A using the default rules) as determined by the Committee and (b) if the Award Agreement is exempt from and not subject to Section 409A the termination of the Award recipient’s employment relationship with the Company and all Affiliates as determined by the Committee. “Termination of Employment” means, in the case of an ISO, the termination of the Employee’s employment relationship with all of the Company, any Parent Corporation, any Subsidiary Corporation and any parent or subsidiary corporation (within the meaning of section 422(a)(2) of the Code) of any such corporation that issues or assumes an ISO in a transaction to which section 424(a) of the Code applies.

2.52 “ **Termination of Service** ” means, in the case of an Award issued to a Non-Employee Director or a Third Party Service Provider, (a) if the Award Agreement is not exempt from and is subject to Section 409A the termination of the Award recipient’s service relationship with the Company and all Affiliates in a manner that constitutes a “separation from service” (as that term is defined for purposes of Section 409A using the default rules) as determined by the Committee and (b) if the Award Agreement is exempt from and not subject to Section 409A, in the case of an Award to a Non-Employee Director, the termination of a Non-Employee Director’s service on the Board, and, in the case of a Third Party Service Provider, the termination of the Third Party Service Provider’s service relationship with the Company and all Affiliates as determined by the Committee.

2.53 “ **Third Party Service Provider** ” means any consultant, agent, representative, advisor, or independent contractor who renders services to the Company or an Affiliate that (a) are not in connection with the offer and sale of the Company’s securities in a capital raising transaction, and (b) do not directly or indirectly promote or maintain a market for the Company’s securities.

2.54 “ **Voting Stock** ” means shares of Stock the holders of which are entitled to vote for the election of directors, but excluding shares of Stock entitled to so vote only upon the occurrence of a contingency unless that contingency shall have occurred.

ARTICLE III

ELIGIBILITY AND PARTICIPATION

3.1 **Eligibility** . Except as otherwise specified in this Article III, the persons who are eligible to receive Awards under the Plan are Employees, Non-Employee Directors and Third Party Service Providers, *provided*, however, that (a) only those persons who are, on the dates of grant, key employees of the Company or any Parent Corporation or Subsidiary Corporation are eligible for grants of Incentive Stock Options under the Plan, (b) the only persons who are eligible to receive Performance Stock Awards, Performance Unit Awards and Cash Performance Awards under the Plan are key executive Employees who, by the nature and scope of their positions, regularly directly make or influence policy decisions which significantly impact the overall results or success of the Company and (c) Non-Employee Directors and Third Party Service Providers are only eligible to receive NQSOs, SARs, Restricted Stock, and RSUs. Awards other than ISOs, Performance Stock Awards, Performance Units Awards or Cash Performance Awards may also be granted to a person who is expected to become a key Employee within three (3) months of the date of grant.

3.2 **Participation**. Subject to the terms and provisions of the Plan, the Committee may, from time to time, select the eligible persons to whom Awards shall be granted and shall determine the nature and amount of each Award.

ARTICLE IV

GENERAL PROVISIONS RELATING TO AWARDS

4.1 **Authority to Grant Awards** . The Committee may grant Awards to those Employees, Non-Employee Directors and Third Party Service Providers as the Committee shall from time to time determine, under the terms and conditions of the Plan. Subject only to any applicable limitations set out in the Plan, the number of shares of Stock or other value to be covered by any Award to be granted under the Plan shall be as determined by the Committee in its sole discretion. On an annual basis, as provided in Section 15.2(d) the Compensation Committee also may delegate to one or more officers of the Company the limited authority to grant Awards (other than Awards pursuant to Article IX) to eligible persons under the Plan during such calendar year who are neither (a) Non-Employee Directors nor (b) officers of the Company or any Affiliate subject to the provisions of Section 16 of the Exchange Act. The following rules shall apply to grants of Awards under the Plan.

(a) The aggregate number of shares of Stock with respect to which Awards may be granted under the Plan is 500,000 (the “ **Authorized Shares** ”).

(b) The aggregate number of shares of Stock with respect to which ISOs may be granted under the Plan is equal to the Authorized Shares.

(c) The maximum number of shares of Stock with respect to which ISOs may be granted to an Employee during a calendar year is equal to the Authorized Shares. The maximum number of shares of Stock with respect to which NQSOs may be granted to an Employee during a calendar year is equal to the Authorized Shares. The maximum number of shares of Stock with respect to which SARs may be granted to an Employee during a calendar year is equal to the Authorized Shares. The maximum number of shares of Stock with respect to which Performance Stock Awards may be granted to an Employee during a calendar year is equal to the Authorized Shares. The maximum number of shares of Stock with respect to which Performance Unit Awards payable in shares of Stock may be granted to an Employee during a calendar year is equal to the Authorized Shares. The maximum value of cash with respect to which Performance Unit Awards payable in cash may be granted to an Employee during a calendar year, determined as of the dates of grants of the Performance Unit Awards, is \$5,000,000. The maximum amount that may be paid to a key executive Employee under Cash Performance Award(s) granted to an Employee during a calendar year is \$5,000,000.

(d) The aggregate dollar value of shares of Stock covered by Awards that may be granted under the Plan to a Non-Employee Director in any calendar year shall be no more than \$150,000, determined as of the date of grant or grants.

(e) Each of the foregoing numerical limits stated in this Section 4.1 shall be subject to adjustment in accordance with the provisions of Section 4.5.

4.2 **Shares That Count Against Limit.**

(a) If shares of Stock are withheld from payment of an Award to satisfy tax obligations with respect to the Award, such shares of Stock will count against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan.

(b) If shares of Stock are tendered in payment of an Option Price of an Option, such shares of Stock will count against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan.

(c) To the extent that any outstanding Award terminates or expires, is forfeited or cancelled, for any reason or is settled in cash in lieu of shares of Stock or in a manner such that all or some of the shares of Stock covered by the Award are not issued or are exchanged for Awards that do not involve shares of Stock, the shares of Stock allocable to such portion of the Award will immediately become available to be issued pursuant to an Award granted under the Plan.

(d) When a SAR is settled in shares of Stock, the number of shares of Stock subject to the SAR under the SAR Award Agreement will be counted against the aggregate number of shares of Stock with respect to which Awards may be granted under the Plan as one share for every share subject to the SAR, regardless of the number of shares used to settle the SAR upon exercise.

(e) The maximum number of shares of Stock available for issuance under the Plan shall not be reduced to reflect any dividends or Dividend Equivalents that are reinvested into additional shares of Stock or credited as additional Restricted Stock, Restricted Stock Units, Performance Shares, or other Stock-Based Awards.

4.3 **Non-Transferability** . Except as specified in the applicable Award Agreement or in a domestic relations court order, no Award may be transferred, sold, assigned, pledged, hypothecated, encumbered or otherwise disposed of (whether by operation of law, for consideration or otherwise) or be subject to execution, attachment or similar process, other than by will or under the laws of descent and distribution, and shall be exercisable, during the Holder's lifetime, only by him or her. . Any attempted transfer, sale, assignment, pledge, hypothecation, encumbrance or other disposition an Award in violation of this Section 4.3 shall be null and void. In the discretion of the Committee, any attempt to transfer, sale, assignment, pledge, hypothecation, encumbrance or other disposition an Award other than under the terms of the Plan and the applicable Award Agreement may terminate the Award. Notwithstanding anything in the Plan or an Award Agreement to the contrary, no ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.

4.4 **Requirements of Law**. The Company shall not be required to sell or issue any shares of Stock under any Award if issuing those shares of Stock would constitute or result in a violation by the Holder or the Company of any provision of any law, statute or regulation of any governmental authority. Specifically, in connection with any applicable statute or regulation relating to the registration of securities, upon exercise of any Option or pursuant to any other Award, the Company shall not be required to issue any shares of Stock unless the Committee has received evidence satisfactory to it to the effect that the Holder will not transfer the shares of Stock except in accordance with applicable law, including receipt of an opinion of counsel satisfactory to the Company to the effect that any proposed transfer complies with applicable law. The determination by the Committee on this matter shall be final, binding and conclusive. The Company may, but shall in no event be obligated to, register any shares of Stock covered by the Plan pursuant to applicable securities laws of any country or any political subdivision. In the event the shares of Stock issuable on exercise of an Option or pursuant to any other Award are not registered, the Company may imprint on the certificate evidencing the shares of Stock any legend that counsel for the Company considers necessary or advisable to comply with applicable law, or, should the shares of Stock be represented by book or electronic entry rather than a certificate, the Company may take such steps to restrict transfer of the shares of Stock as counsel for the Company considers necessary or advisable to comply with applicable law. The Company shall not be obligated to take any other affirmative action in order to cause or enable the exercise of an Option or any other Award, or the issuance of shares of Stock pursuant thereto, to comply with any law or regulation of any governmental authority.

4.5 **Changes in the Company's Capital Structure.**

(a) The existence of outstanding Awards shall not affect in any way the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of bonds, debentures, preferred or prior preference shares ahead of or affecting the Stock or Stock rights, the dissolution or liquidation of the Company, any sale or transfer of all or any part of its assets or business or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) If the Company shall effect a subdivision or consolidation of Stock or other capital readjustment, the payment of a Stock dividend, or other increase or reduction of the number of shares of Stock outstanding, without receiving compensation therefor in money, services or property, then (i) the number, class or series and per share price of Stock subject to outstanding Awards under the Plan shall be appropriately adjusted in such a manner as to entitle a Holder to receive upon exercise of an Award, for the same aggregate cash consideration, the equivalent total number and class or series of Stock the Holder would have received had the Holder exercised his or her Award in full immediately prior to the event requiring the adjustment, and (ii) the number and class or series of Stock then reserved to be issued under the Plan shall be adjusted by substituting for the total number and class or series of Stock then reserved, that number and class or series of Stock that would have been received by the owner of an equal number of outstanding shares of Stock of each class or series of Stock as the result of the event requiring the adjustment.

(c) If while unexercised Awards remain outstanding under the Plan (i) the Company shall not be the surviving entity in any merger, consolidation or other reorganization (or survives only as a subsidiary of an entity other than an entity that was wholly-owned by the Company immediately prior to such merger, consolidation or other reorganization), (ii) the Company sells, leases or exchanges or agrees to sell, lease or exchange all or substantially all of its assets to any other person or entity (other than an entity wholly-owned by the Company), (iii) the Company is to be dissolved or (iv) the Company is a party to any other corporate transaction (as defined under section 424(a) of the Code and applicable Department of Treasury regulations) that is not described in clauses (i), (ii) or (iii) of this sentence (each such event is referred to herein as a “*Corporate Change*”), then, except as otherwise provided in an Award Agreement or another agreement between the Holder and the Company (*provided* that such exceptions shall not apply in the case of a reincorporation merger), or as a result of the Committee’s effectuation of one or more of the alternatives described below, there shall be no acceleration of the time at which any Award then outstanding may be exercised, and no later than ten days after the approval by the stockholders of the Company of such Corporate Change (or approval by the Board if approval by the stockholders of the Company of such Corporate Change is not required), the Committee, acting in its sole and absolute discretion without the consent or approval of any Holder, shall act to effect one or more of the following alternatives, which may vary among individual Holders and which may vary among Awards held by any individual Holder (*provided* that, with respect to a reincorporation merger in which Holders of the Company’s ordinary shares will receive one ordinary share of the successor corporation for each ordinary share of the Company, none of such alternatives shall apply and, without Committee action, each Award shall automatically convert into a similar award of the successor corporation exercisable for the same number of ordinary shares of the successor as the Award was exercisable for ordinary shares of Stock of the Company):

(1) accelerate the time at which some or all of the Awards then outstanding may be exercised so that such Awards may be exercised in full for a limited period of time on or before a specified date (before or after such Corporate Change) fixed by the Committee, after which specified date all such Awards that remain unexercised and all rights of Holders thereunder shall terminate;

(2) require the mandatory surrender to the Company by all or selected Holders of some or all of the then outstanding Options and SARs held by such Holders (irrespective of whether such Options and SARs are then exercisable under the provisions of the Plan or the applicable Award Agreement evidencing such Options or SARs) as of a date, before or after such Corporate Change, specified by the Committee, in which event the Committee shall thereupon cancel such Options and SARs and the Company shall pay to each such Holder an amount of cash per share equal to the excess, if any, of the per share price offered to stockholders of the Company in connection with such Corporate Change over the exercise prices or grant prices under such Options and SARs for such shares;

(3) with respect to all or selected Holders, have some or all of their then outstanding Awards (whether vested or unvested) assumed or have a new award of a similar nature substituted for some or all of their then outstanding Awards under the Plan (whether vested or unvested) by an entity which is a party to the transaction resulting in such Corporate Change and which is then employing such Holder or which is affiliated or associated with such Holder in the same or a substantially similar manner as the Company prior to the Corporate Change, or a parent or subsidiary of such entity, *provided* that (A) such assumption or substitution is on a basis where the excess of the aggregate fair market value of the stock subject to the Award immediately after the assumption or substitution over the aggregate exercise price of such Award is equal to the excess of the aggregate fair market value of all Stock subject to the Award immediately before such assumption or substitution over the aggregate exercise price of such Award, and (B) the assumed rights under such existing Award or the substituted rights under such new Award, as the case may be, will have the same terms and conditions as the rights under the existing Award assumed or substituted for, as the case may be;

(4) provide that the number and class or series of Stock covered by an Award (whether vested or unvested) theretofore granted shall be adjusted so that such Award when exercised shall thereafter cover the number and class or series of Stock or other securities or property (including cash) to which the Holder would have been entitled pursuant to the terms of the agreement or plan relating to such Corporate Change if, immediately prior to such Corporate Change, the Holder had been the holder of record of the number of shares of Stock then covered by such Award; or

(5) make such adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Corporate Change (*provided* , however, that the Committee may determine in its sole and absolute discretion that no such adjustment is necessary to reflect such Corporate Change).

Any adjustment effected by the Committee under Section 4.5 shall be designed to provide the Holder with the intrinsic value of his or her Award, as determined prior to the Corporate Change, or, if applicable, equalize the Fair Market Value of the shares of stock covered by the Award before and after the Corporate Change.

In effecting one or more of the alternatives set out in paragraphs (3), (4) or (5) immediately above, and except as otherwise may be provided in an Award Agreement, the Committee, in its sole and absolute discretion and without the consent or approval of any Holder, may accelerate the time at which some or all Awards then outstanding may be exercised.

(d) In the event of changes in the outstanding Stock by reason of recapitalizations, reorganizations, mergers, consolidations, combinations, exchanges or other relevant changes in capitalization occurring after the date of the grant of any Award and not otherwise provided for by this Section 4.5, any outstanding Award and any Award Agreement evidencing such Award shall be subject to adjustment by the Committee in its sole and absolute discretion as to the number and price of Stock or other consideration subject to such Award. In the event of any such change in the outstanding Stock, the aggregate number of shares of Stock available under the Plan may be appropriately adjusted by the Committee, whose determination shall be conclusive.

(e) After a merger of one or more corporations into the Company in which the Company shall be the surviving corporation, each Holder shall be entitled to have his or her Restricted Stock appropriately adjusted based on the manner in which the shares of Stock were adjusted under the terms of the agreement of merger or consolidation.

(f) The issuance by the Company of stock of any class or series, or securities convertible into, or exchangeable for, stock of any class or series, for cash or property, or for labor or services either upon direct sale or upon the exercise of rights or warrants to subscribe for them, or upon conversion or exchange of stock or obligations of the Company convertible into, or exchangeable for, stock or other securities, shall not affect, and no adjustment by reason of such issuance shall be made with respect to, the number, class or series, or price of shares of Stock then subject to outstanding Awards.

4.6 **Election Under Section 83(b) of the Code.** No Holder shall exercise the election permitted under section 83(b) of the Code with respect to any Award without the prior written approval of the Chief Financial Officer of the Company. Any Holder who makes an election under section 83(b) of the Code with respect to any Award without the prior written approval of the Chief Financial Officer of the Company may, in the discretion of the Committee, forfeit any or all Awards granted to him or her under the Plan.

4.7 **Forfeiture for Cause.**

(a) Notwithstanding any other provision of the Plan or an Award Agreement to the contrary, if a determination is made as provided in Section 4.7(b) (a “**Forfeiture Determination**”) that (i) the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award), before or after the termination of such individual's employment or service with the Company and all Affiliates, (A) committed fraud, embezzlement, theft, felony or an act of dishonesty (as defined below) in the course of his employment by or service to the Company or an Affiliate, (B) knowingly caused or assisted in causing the publicly released financial statements of the Company to be misstated or the Company or a subsidiary of the Company to engage in criminal misconduct, (C) disclosed trade secrets of the Company or an Affiliate or (D) violated the terms of any non-competition, non-disclosure or similar agreement with respect to the Company or any Affiliate to which the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award) is a party, and (ii) in the case of the actions described in clause (A), (C) and (D), such action materially and adversely affected the Company, then at or after the time such Forfeiture Determination is made the Board, in good faith, if such Forfeiture Determination is made prior to a Change in Control, or, as determined by a final, non-appealable order of a court of competent jurisdiction, if such Forfeiture Determination is made after a Change in Control, as a fair and equitable forfeiture to reflect the harm done to the Company and a reduction of the benefit bestowed on the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award) had the facts existing at the time the benefit was bestowed that led to the Forfeiture Determination been known to the Company at the time the benefit was bestowed, may determine that some or all (x) of the Holder's rights to shares of the Stock covered by an Award (including vested rights that have been exercised or paid, vested rights that have not been exercised or paid and rights that have not yet vested or been paid) or cash payments paid or payable under an Award (including payments for vested rights, amounts payable for vested rights that have not been paid and rights that have not yet vested), (y) some or all of the dividends that have been paid with respect to shares of the Stock covered by the Award, and (z) some or all shares of the Stock received as a result of the Holder's grant, receipt, exercise or holding of the Award and some or all net proceeds realized with respect to any shares of the Stock received as a result of the Holder's exercise or holding of the Award in excess of the price paid for such shares, will be forfeited to the Company on such terms as determined by the Board or the final, non-appealable order of a court of competent jurisdiction. For purposes of this Section 4.7, an “**act of dishonesty**” shall require a material breach by the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award) of his or her duties, obligations or undertakings owed to or on behalf of the Company and its Affiliates, as determined by the Board if such determination is made prior to a Change in Control, or, as determined by a final, non-appealable order of a court of competent jurisdiction, if such determination is made after a Change in Control. In determining whether a matter materially and adversely affects the Company, the Board shall be entitled to consider all relevant factors and exercise business judgment in making such determination, including but not limited to the financial consequences, adverse reputational consequences or legal consequences to the Company and/or its subsidiaries, individually or taken as a whole, as a result of such action.

(b) A Forfeiture Determination for purposes of Section 4.7(a) shall be made (i) before the occurrence of a Change in Control, by a majority vote of the Board and (ii) on or after the occurrence of a Change in Control, by the final, non-appealable order of a court of competent jurisdiction. The findings and decision of the Board with respect to a Forfeiture Determination made before the occurrence of a Change in Control, including those regarding the acts of the original grantee of the Award and the damage done to the Company, will be final for all purposes absent a showing by clear and convincing evidence of manifest error by, or a lack of good faith on the part of, the Board. No decision of the Board, however, will affect the finality of the discharge of the original grantee of the Award by the Company or an Affiliate.

4.8 **Forfeiture Events.** Without limiting the applicability of Section 4.7 or Section 4.9, the Committee may specify in an Award Agreement that the Holder's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, Separation from Service for cause, Separation from Service for any other reason, violation of material policies of the Company and its Affiliates, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Holder, or other conduct by the Holder that is detrimental to the business or reputation of the Company and its Affiliates.

4.9 **Recoupment in Restatement Situations.** Without limiting the applicability of Section 4.7 or Section 4.8, if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under applicable securities laws, the current or former Holder who was a current or former executive officer of the Company or an Affiliate shall forfeit and must repay to the Company any compensation awarded under the Plan to the extent specified in any of the Company's recoupment policies established or amended (now or in the future) in compliance with the rules and standards of the Securities and Exchange Commission under or in connection with Section 10D of the Exchange Act.

4.10 **Award Agreements .** Each Award shall be embodied in a written or electronic Award Agreement that shall be subject to the terms and conditions of the Plan. The Award Agreement shall be signed by or delivered on behalf of an authorized executive officer of the Company, other than the Holder, on behalf of the Company, and may be signed or acknowledged by the Holder to the extent required by the Committee. The Award Agreement may specify the effect of a Change in Control of the Company on the Award. The Award Agreement may contain any other provisions that the Committee in its discretion shall deem advisable which are not inconsistent with the terms and provisions of the Plan. An Award Agreement may be altered, amended, modified, or suspended as provided in Section 16.2. An Award Agreement may be terminated as provided in Section 16.2 and elsewhere in the Plan including Sections 4.7, 4.8 and 4.9.

4.11 **Rights as Stockholder.** A Holder shall not have any rights as a stockholder with respect to Stock covered by an Option, a SAR, an RSU, a Performance Unit, or an Other Stock-Based Award payable in Stock until the date, if any, such Stock is issued by the Company; and, except as otherwise provided in Section 4.5, no adjustment for dividends, or otherwise, shall be made if the record date therefor is prior to the date of issuance of such Stock.

4.12 **Issuance of Shares of Stock.** Shares of Stock, when issued, may be represented by a certificate or by book or electronic entry.

4.13 **Restrictions on Stock Received.** The Committee may impose such conditions and restrictions on any shares of Stock issued pursuant to an Award as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Holder hold the shares of Stock for a specified period of time.

4.14 **Compliance With Section 409A.** Awards shall be designed, granted and administered in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A. The Plan and each Award Agreement under the Plan that is intended to comply the requirements of Section 409A shall be construed and interpreted in accordance with such intent. If the Committee determines that an Award, Award Agreement, payment, distribution, deferral election, transaction, or any other action or arrangement contemplated by the provisions of the Plan would, if undertaken, cause a Holder to become subject to additional taxes under Section 409A, then unless the Committee specifically provides otherwise, such Award, Award Agreement, payment, distribution, deferral election, transaction or other action or arrangement shall not be given effect to the extent it causes such result and the related provisions of the Plan and Award Agreement will be deemed modified, or, if necessary, suspended in order to comply with the requirements of Section 409A to the extent determined appropriate by the Committee, in each case without the consent of or notice to the Holder. The exercisability of an Option or a SAR shall not be extended to the extent that such extension would subject the Holder to additional taxes under Section 409A. Notwithstanding any other provision of the Plan or an Award Agreement, if an Award is not exempt from the requirements of Section 409A and the Holder (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award) is a "specified employee" (as such term is defined for purposes of Section 409A) and a payment under the Award is due as a result of such individual's "termination of employment", "separation from service" (as that term is defined for purposes of Section 409A using the default rules) or comparable event then no payment shall be made under the Award due to such termination of employment, separation from service or comparable event before the date that is six (6) months after the date on which the Holder incurs a separation from service, except as otherwise allowed by Section 409A.

4.15 **Date of Grant.** The date on which an option or SAR is granted shall be the date the Company completes the corporate action constituting an offer of stock for sale to a Holder under the terms and conditions of the Option or SAR; *provided* that such corporate action shall not be considered complete until the date on which the *maximum* number of shares that can be purchased under the Option and the minimum Option price are fixed or determinable. If the corporate action contemplates an immediate offer of stock for sale to a class of individuals, then the date of the granting of an Option is the time or date of that corporate action, if the offer is to be made immediately. If the corporate action contemplates a particular date on which the offer is to be made, then the date of grant is the contemplated date of the offer.

4.16 **Source of Shares Deliverable Under Awards.** Any shares of Stock delivered pursuant to an Award may consist, in whole or in part, of authorized and unissued shares of Stock or of treasury shares of Stock.

4.17 **Limitations on Vesting of Awards .**

(a) Unless the applicable Award Agreement specifies otherwise, an Award shall not continue to vest after the Separation from Service of the Holder of the Award (or, if the Holder is not the original grantee of the applicable Award, the Separation from Service of the original grantee of the applicable Award) for any reason.

(b) An Award granted under the Plan must include a minimum vesting period of at least one (1) year, provided, however, that (i) an Award may provide that the Award will vest before the completion of such one (1) year period upon the death or Disability of the original grantee of the Award or a Change of Control of the Company and (ii) Awards covering, in the aggregate, 25,000 shares of Stock may be issued without any minimum vesting period.

ARTICLE V

OPTIONS

5.1 **Authority to Grant Options.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Options under the Plan to eligible persons in such number and upon such terms as the Committee shall determine; *provided* that ISOs may be granted only to eligible Employees of the Company or of any Parent Corporation or Subsidiary Corporation (as permitted by section 422 of the Code and the regulations thereunder).

5.2 **Type of Options Available.** Options granted under the Plan may be NQSOs or ISOs.

5.3 **Option Agreement.** Each Option grant under the Plan shall be evidenced by an Award Agreement that shall specify (a) whether the Option is intended to be an ISO or an NQSO, (b) the Option Price, (c) the duration of the Option, (d) the number of shares of Stock to which the Option pertains, (e) the exercise restrictions, if any, applicable to the Option and (f) such other provisions as the Committee shall determine that are not inconsistent with the terms and provisions of the Plan. Notwithstanding the designation of an Option as an ISO in the applicable Award Agreement for such Option, to the extent the limitations of Section 5.10 of the Plan are exceeded with respect to the Option, the portion of the Option in excess of the limitation shall be treated as a NQSO. An Option granted under the Plan may not be granted with any Dividend Equivalents rights.

5.4 **Option Price.** The price at which shares of Stock may be purchased under an Option (the “*Option Price*”) shall not be less than one hundred percent (100%) of the Fair Market Value of the shares of Stock on the date the Option is granted; *provided, however*, if the Option is an ISO granted to a Ten Percent Stockholder, the Option Price must not be less than one hundred ten percent (110%) of the Fair Market Value of the shares of Stock on the date the ISO is granted. Subject to the limitations set forth in the preceding sentences of this Section 5.4, the Committee shall determine the Option Price for each grant of an Option under the Plan.

5.5 **Duration of Option.** An Option shall not be exercisable after the earlier of (a) the general term of the Option specified in the applicable Award Agreement (which shall not exceed ten years, and, in the case of a Ten Percent Stockholder, no ISO shall be exercisable later than the fifth (5th) anniversary of the date of its grant) or (b) the period of time specified in the applicable Award Agreement that follows the Holder’s Separation from Service (or, if the Holder is not the original grantee of the applicable Award, the original grantee of the applicable Award).

5.6 **Amount Exercisable.** Each Option may be exercised at the time, in the manner and subject to the conditions the Committee specifies in the Award Agreement in its sole discretion.

5.7 Exercise of Option.

(a) *General Method of Exercise* . Subject to the terms and provisions of the Plan and the applicable Award Agreement, Options may be exercised in whole or in part from time to time by the delivery of written notice in the manner designated by the Committee stating (i) that the Holder wishes to exercise such Option on the date such notice is so delivered, (ii) the number of shares of Stock with respect to which the Option is to be exercised and (iii) the address to which a stock certificate, if any, representing such shares of Stock should be mailed or delivered, or the account to which the shares of Stock represented by book or electronic entry should be delivered. Except in the case of exercise by a third party broker as provided below, in order for the notice to be effective the notice must be accompanied by payment of the Option Price (and all applicable federal, state, local and foreign withholding taxes described in Section 17.3) by any combination of the following: (w) cash, certified check, or bank draft for an amount equal to the Option Price under the Option, (x) Mature Shares with a Fair Market Value on the date of exercise equal to the Option Price under the Option (if approved in advance by the Committee or an executive officer of the Company), (y) as described further in (c) below, an election to make a cashless exercise through a registered broker-dealer (if approved in advance by the Committee or an executive officer of the Company) or (z) except as specified below, any other form of payment which is acceptable to the Committee. If Mature Shares are used for payment by the Holder, the aggregate Fair Market Value of the shares of Stock tendered must be equal to or less than the aggregate Option Price of the shares of Stock being purchased upon exercise of the Option, and any difference must be paid by cash, certified check, or bank draft payable to the order of the Company. Whenever an Option is exercised by exchanging shares of Stock owned by the Holder, the Holder shall deliver to the Company or its delegate certificates registered in the name of the Holder representing a number of shares of Stock legally and beneficially owned by the Holder, free of all liens, claims, and encumbrances of every kind, accompanied by stock powers duly endorsed in blank by the record holder of the shares represented by the certificates, (with signature guaranteed by a commercial bank or trust company or by a brokerage firm having a membership on a registered national stock exchange). The delivery of certificates upon the exercise of Option is subject to the condition that the person exercising the Option provide the Company with the information the Company might reasonably request pertaining to exercise, sale or other disposition of an Option.

(b) *Issuance of Shares* . Subject to Section 4.3 and Section 5.7(c), as promptly as practicable after receipt of written notification and payment, in the form required by Section 5.7(a), of an amount of money necessary to satisfy the aggregate option price and any withholding tax liability that *may* result from the exercise of such Option, the Company shall deliver to the Holder certificates for the number of shares with respect to which the Option has been exercised, issued in the Holder's name. Delivery of the shares shall be deemed effected for all purposes when a stock transfer agent of the Company shall have deposited the certificates in the United States mail, addressed to the Holder, at the address specified by the Holder or shall have transferred to the account designated by the Holder to which the shares of Stock represented by book or electronic entry are to be delivered.

(c) *Exercise Through Third-Party Broker* . The Committee may permit a Holder to elect to pay the Option Price and any applicable tax withholding resulting from such exercise by authorizing a third-party broker to sell all or a portion of the shares of Stock acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the Option Price and any applicable federal, state, local and foreign tax withholding resulting from such exercise.

(d) *Exercise of ISOs* . All ISOs granted to an Employee under this Article V shall be exercisable during his or her lifetime only by such Employee

(e) **Limitations on Exercise Alternatives** . The Committee shall not permit a Holder to pay such Holder's Option Price upon the exercise of an Option by having the Company reduce the number of shares of Stock that will be delivered pursuant to the exercise of the Option. In addition, the Committee shall not permit a Holder to pay such Holder's Option Price upon the exercise of an Option by using shares of Stock other than Mature Shares. An Option may not be exercised for a fraction of a share of Stock.

5.8 **Notification of Disqualifying Disposition** . If any Employee shall make any disposition of shares of Stock issued pursuant to the exercise of an ISO under the circumstances described in section 421(b) of the Code (relating to certain disqualifying dispositions), such Employee shall notify the Company of such disposition within ten (10) days thereof.

5.9 **No Rights as Stockholder** . A Holder of an Option shall not have any rights as a stockholder with respect to Stock covered by an Option until the date a stock certificate for such Stock is issued by the Company. Except as otherwise provided in Section 4.5, no adjustment for dividends, or otherwise, shall be made if the record date therefor is prior to the date of issuance of such certificate.

5.10 **\$100,000 Limitation on ISOs** . To the extent that the aggregate Fair Market Value of shares of Stock with respect to which ISOs first become exercisable by a Holder in any calendar year exceeds \$100,000, taking into account both shares of Stock subject to ISOs under the Plan and Stock subject to ISOs under all other plans of the Company, such Options shall be treated as NQSOs. For this purpose, the "Fair Market Value" of the shares of Stock subject to Options shall be determined as of the date the Options were awarded. In reducing the number of Options treated as ISOs to meet the \$100,000 limit, the most recently granted Options shall be reduced first. To the extent a reduction of simultaneously granted Options is necessary to meet the \$100,000 limit, the Committee may, in the manner and to the extent permitted by law, designate which shares of Stock are to be treated as shares acquired pursuant to the exercise of an ISO.

5.11 **Separation from Service**. Each Award Agreement shall set forth the extent to which the Holder of an Option shall have the right to exercise the Option following the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options issued pursuant to the Award Agreement or the Plan, and may reflect distinctions based on the reasons for termination or severance.

ARTICLE VI

STOCK APPRECIATION RIGHTS

6.1 **Authority to Grant SAR Awards**. Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant SARs under the Plan to eligible persons in such number and upon such terms as the Committee shall determine. Subject to the terms and conditions of the Plan, the Committee shall have complete discretion in determining the number of SARs granted to each Holder and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs.

6.2 **General Terms**. Subject to the terms and conditions of the Plan, a SAR granted under the Plan shall confer on the recipient a right to receive, upon exercise thereof, an amount equal to the excess of (a) the Fair Market Value of one share of the Stock on the date of exercise over (b) the grant price of the SAR, which shall not be less than one hundred percent (100%) of the Fair Market Value of one share of the Stock on the date of grant of the SAR. A SAR granted under the Plan may not be granted with any Dividend Equivalents rights.

6.3 **SAR Agreement**. Each Award of SARs granted under the Plan shall be evidenced by an Award Agreement that shall specify (a) the grant price of the SAR, (b) the term of the SAR, (c) the vesting and termination provisions of the SAR and (d) such other provisions as the Committee shall determine that are not inconsistent with the terms and provisions of the Plan. The Committee may impose such additional conditions or restrictions on the exercise of any SAR as it may deem appropriate.

6.4 **Term of SAR.** The term of a SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided that no SAR shall be exercisable on or after the tenth anniversary date of its grant.

6.5 **Exercise of SARs .** Subject to the terms and provisions of the Plan and the applicable Award Agreement, a SAR may be exercised in whole or in part from time to time by the delivery of written notice in the manner designated by the Committee stating (a) that the Holder wishes to exercise such SAR on the date such notice is so delivered, (b) the number of shares of Stock with respect to which the SAR is to be exercised and (c) the address to which the payment due under such SAR should be delivered or the account to which any shares of Stock payable as a result of the exercise of the SAR represented by book or electronic entry should be delivered. In accordance with applicable law, a SAR may be exercised subject to whatever additional terms and conditions the Committee, in its sole discretion, imposes.

6.6 **Payment of SAR Amount.** Upon the exercise of a SAR, a Holder shall be entitled to receive payment from the Company in an amount determined by multiplying the excess of the Fair Market Value of a share of Stock on the date of exercise over the grant price of the SAR by the number of shares of Stock with respect to which the SAR is exercised. At the discretion of the Committee, the payment upon SAR exercise may be in cash, in shares of Stock of equivalent value, in some combination thereof or in any other manner approved by the Committee in its sole discretion. The Committee's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

6.7 **Separation from Service .** Each Award Agreement shall set forth the extent to which the Holder of a SAR shall have the right to exercise the SAR following the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee, may be included in the Award Agreement entered into with the Holder, need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination or severance.

6.8 **No Rights as Stockholder.** A grantee of a SAR award, as such, shall have no rights as a stockholder.

6.9 **Restrictions on Stock Received.** The Committee may impose such conditions and restrictions on any shares of Stock received upon exercise of a SAR granted pursuant to the Plan as it may deem advisable or desirable. These restrictions may include, but shall not be limited to, a requirement that the Holder hold the shares of Stock received upon exercise of a SAR for a specified period of time.

ARTICLE VII

RESTRICTED STOCK AWARDS

7.1 **Restricted Stock Awards .** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may make Awards of Restricted Stock under the Plan to eligible persons in such number and upon such terms as the Committee shall determine. The amount of and the vesting, transferability and forfeiture restrictions applicable to any Restricted Stock Award shall be determined by the Committee in its sole discretion. If the Committee imposes vesting, transferability and forfeiture restrictions on a Holder's rights with respect to Restricted Stock, the Committee may issue such instructions to the Company's share transfer agent in connection therewith as it deems appropriate. The Committee may also cause the certificate for shares of Stock issued pursuant to a Restricted Stock Award to be imprinted with any legend which counsel for the Company considers advisable with respect to the restrictions or, should the shares of Stock be represented by book or electronic entry rather than a certificate, the Company may take such steps to restrict transfer of the shares of Stock as counsel for the Company considers necessary or advisable to comply with applicable law.

7.2 **Restricted Stock Award Agreement.** Each Restricted Stock Award shall be evidenced by an Award Agreement that contains any vesting, transferability and forfeiture restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

7.3 **Holder's Rights as Stockholder.** Subject to the terms and conditions of the Plan, each recipient of a Restricted Stock Award shall have all the rights of a stockholder with respect to the shares of Restricted Stock included in the Restricted Stock Award during the Period of Restriction established for the Restricted Stock Award. Dividends paid with respect to Restricted Stock in cash or property other than shares of Stock or rights to acquire shares of Stock shall be paid to the recipient of the Restricted Stock Award currently. Dividends paid in shares of Stock or rights to acquire shares of Stock shall be added to and become a part of the Restricted Stock. During the Period of Restriction, certificates representing the Restricted Stock shall be registered in the Holder's name and bear a restrictive legend to the effect that ownership of such Restricted Stock, and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms, and conditions provided in the Plan and the applicable Award Agreement. Such certificates shall be deposited by the recipient with the Secretary of the Company or such other officer or agent of the Company as may be designated by the Committee, together with all stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock which shall be forfeited in accordance with the Plan and the applicable Award Agreement.

ARTICLE VIII

RESTRICTED STOCK UNIT AWARDS

8.1 **Authority to Grant RSU Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant RSU Awards under the Plan to eligible persons in such amounts and upon such terms as the Committee shall determine. The amount of and the vesting, transferability and forfeiture restrictions applicable to any RSU Award shall be determined by the Committee in its sole discretion. The Committee shall maintain a bookkeeping ledger account which reflects the number of RSUs credited under the Plan for the benefit of a Holder.

8.2 **RSU Award.** An RSU Award shall be similar in nature to a Restricted Stock Award except that no shares of Stock (or equivalent value in cash) are actually transferred to the Holder until a later date specified in the applicable Award Agreement. Each RSU shall have a value equal to the Fair Market Value of a share of Stock.

8.3 **RSU Award Agreement.** Each RSU Award shall be evidenced by an Award Agreement that contains any Substantial Risk of Forfeiture, vesting, transferability and forfeiture restrictions, form and time of payment provisions and other provisions not inconsistent with the Plan as the Committee may specify.

8.4 **Dividend Equivalents.** An Award Agreement for an RSU Award may specify that the Holder shall be entitled to the payment of Dividend Equivalents under the Award.

8.5 **Form of Payment Under RSU Award.** Payment under an RSU Award shall be made in cash, shares of Stock or any combination thereof, as specified in the applicable Award Agreement.

8.6 **Time of Payment Under RSU Award.** A Holder's payment under an RSU Award shall be made at such time as is specified in the applicable Award Agreement. The Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the RSU Award payment is no longer subject to a Substantial Risk of Forfeiture or (b) at a time that is permissible under Section 409A.

8.7 **Holder's Rights as Stockholder.** Each recipient of an RSU Award shall have no rights of a stockholder with respect to the Holder's RSUs. A Holder shall have no voting rights with respect to any RSU Awards.

ARTICLE IX

PERFORMANCE STOCK AWARDS AND PERFORMANCE UNIT AWARDS

9.1 **Authority to Grant Performance Stock Awards and Performance Unit Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Performance Stock Awards and Performance Unit Awards under the Plan to eligible persons in such amounts and upon such terms as the Committee shall determine. A Performance Stock Award is similar to a Restricted Stock Award but is subject to attainment of the applicable Performance Goals. A Performance Unit Award is similar to a RSU Award but is subject to attainment of the applicable Performance Goals. The amount of and the vesting, transferability and forfeiture restrictions applicable to any Performance Stock Award or Performance Unit Award shall be based upon the attainment of such Performance Goals as the Committee may determine; provided, however, that the performance period for any Performance Stock Award or Performance Unit Award shall not be less than one year. If the Committee imposes vesting, transferability and forfeiture restrictions on a Holder's rights with respect to Performance Stock Award or Performance Unit Award, the Committee may issue such instructions to the Company's share transfer agent in connection therewith as it deems appropriate. The Committee may also cause the certificate for shares of Stock issued pursuant to a Performance Stock Award or Performance Unit Award to be imprinted with any legend which counsel for the Company considers advisable with respect to the restrictions or, should the shares of Stock be represented by book or electronic entry rather than a certificate, the Company may take such steps to restrict transfer of the shares of Stock as counsel for the Company considers necessary or advisable.

9.2 **Performance Goals and Performance Criteria.**

(a) A Performance Goal must be objective such that a third party having knowledge of the relevant facts could determine whether the goal is met. Unless and until the Committee proposes for stockholder vote and the stockholders approve a change in the general Performance Goals set forth in this Section 9.2, the Performance Goals upon which the payment or vesting of an Award to a Covered Employee that is intended to qualify as Performance-Based Compensation shall be limited to one or more of the following Performance Goals, which may be based on one or more business criteria that apply to the Employee, or one or more business units, subsidiaries, divisions, departments, regions, segments, products, or functions of the Company or its Affiliates, or the Company as a whole: revenue, revenue growth, product revenue growth, revenue ratios, net revenue, net income or loss, operating income, pre-tax or after-tax income or loss (before or after allocation of corporate overhead and bonus), earnings, net earnings, earnings before interest, taxes, depreciation, and amortization ("*EBITDA*"), earnings before any one of, or combination of two or more of, interest, taxes, depreciation, amortization and/or any other financial adjustment to earnings set forth in the Company's audited financial statements that is allowed under generally accepted accounting principles, earnings per share, earnings per share growth, economic value, economic value added, gross profits, operating profits, net operating profit, net profits, profit return, gross margin, profit margins, cash margins, operating margin, year-end cash, profit before tax, cash return on capitalization, operating expense, operating expense as a percentage of revenue, improvement in or attainment of expense levels, expense reductions, expense targets, gross sales, net sales, sales growth, net sales growth, return on sales, comparable sales growth, stock price, comparisons with various stock market indices, return on equity, return on assets, return on net assets, return on capital, return on capital compared to cost of capital, cost of capital, assets under management, return on capital employed, return on invested capital, debt to capital ratio, debt reduction, shareholder equity, improvement in or attainment of working capital levels, including cash, inventory levels, accounts receivable levels, return on equity, total shareholder return, shareholder return, shareholder value, growth in shareholder value relative to a pre-determined index, share price growth, financial ratios (including those measuring liquidity, activity, profitability or leverage), financial return ratio, cash flow, net cash flow, operating cash flow, cash flow from operations, free cash flow, cash flow per share (before or after dividends), cash flow return on investment, cash flow return on capital, cash value added performance, cost reductions, cost ratios, market share, proceeds from dispositions, project completion time and budget goals, net cash flow before financing activities, financing and other capital raising transactions (including sales of the company's equity or debt securities, acquisitions and divestitures, operating efficiencies, customer growth, total market value, credit rating, sales or licenses of the Company's and its Affiliates' assets, including intellectual property, whether in a particular jurisdiction or territory or globally, operating efficiency, customer satisfaction, customer satisfaction rating, customer complaint frequency, incident resolution success ratio, problem resolution success ratio, productivity ratios, strategic plan development and implementation, succession plan development and implementation, improvements in productivity, employee satisfaction, employee turnover, and recruiting and maintaining personnel. A Performance Goal may also be based on performance relative to a peer group of companies. Unless otherwise stated, a Performance Goal need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria).

(b) Performance Goals may be measured (a) on a per share, per capita, per unit, per square foot, per employee, per customer or other objective basis established by the Committee, (b) on a pre-tax or after-tax basis, or (c) on an absolute basis or in relative terms (including, but not limited to, the passage of time and/or against other companies, financial metrics and/or an index).

(c) At the time the Committee establishes the terms and conditions of the applicable Performance Goal for an Award to a Covered Person intended to satisfy the requirements of section 162(m) of the Code, the Committee may, in the Committee's discretion, provide that amounts relating to or arising from one or more of the following, as objectively defined by the Committee, may be included or excluded on a non-discretionary basis to the extent permitted by Code Section 162(m):

- (i) asset write-downs;
- (ii) the effect of changes in tax laws or other laws or provisions affecting reported results;
- (iii) any reorganization and restructuring programs;
- (iv) extraordinary nonrecurring items as described in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year;
- (v) acquisitions or divestitures;
- (vi) foreign exchange gains and losses;
- (vii) changes in generally accepted accounting principles ("GAAP");

- (viii) items that are non-recurring, extraordinary, unusual in nature, infrequent in occurrence, and may be defined in an objective and non-discretionary manner under applicable GAAP accounting standards or other applicable accounting standards in effect from time to time or consistent with the Company's accounting policies and practices in effect on the date the Performance Goal is established;
- (ix) the disposal or acquisition of all or a segment of a business;
- (x) the sale of investments or non-core assets;
- (xi) discontinued operations, categories or segments;
- (xii) legal claims, settlements and/or litigation and insurance recoveries relating thereto;
- (xiii) amortization, depreciation or impairment of tangible or intangible assets;
- (xiv) reductions in force, early retirement programs, or severance expense;
- (xv) investments, acquisitions or dispositions;
- (xvi) political, legal and other business interruptions (such as due to war, insurrection, riot, terrorism, confiscation, expropriation, nationalization, deprivation, seizure, and regulatory requirements);
- (xvii) natural catastrophes;
- (xviii) currency fluctuations;
- (xix) stock based compensation expense;
- (xx) early retirement of debt;
- (xxi) conversion of convertible debt securities; and
- (xxii) termination of real estate leases.

Each of the adjustments described above may relate to the Company as a whole or any part of the Company's business or operations.

(d) In interpreting Plan provisions applicable to Performance Goals and a Performance Stock Award and Performance Unit Award, it is intended that the Plan will conform with the standards of section 162(m) of the Code and Treasury Regulations § 1.162-27(e)(2)(i), and the Committee in establishing such goals and interpreting the Plan shall be guided by such provisions. Prior to the payment of any compensation based on the achievement of Performance Goals, the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Performance Stock Award or Performance Unit Award made pursuant to the Plan shall be determined by the Committee. In the case of any Award to a Covered Employee that is intended to satisfy the requirements of section 162(m) of the Code, the Plan, such Award and the Award Agreement for such Award will be construed and administered to the maximum extent permitted by law in a manner consistent with satisfying the requirements of section 162(m) of the Code for deductibility of remuneration paid to Covered Employees, notwithstanding anything to the contrary in the Plan.

9.3 **Time of Establishment of Performance Goals.** With respect to a Covered Employee, a Performance Goal for a particular Performance Stock Award or Performance Unit Award must be established by the Committee prior to the earlier to occur of (a) 90 days after the commencement of the period of service to which the Performance Goal relates or (b) the lapse of twenty-five percent (25%) of the period of service, and in any event while the outcome is substantially uncertain.

9.4 **Written Agreement.** Each Performance Stock Award or Performance Unit Award shall be evidenced by an Award Agreement that contains any vesting, transferability and forfeiture restrictions and such other provisions not inconsistent with the Plan as the Committee may specify.

9.5 **Form of Payment Under Performance Unit Award.** Payment under a Performance Unit Award shall be made in cash, shares of Stock or any combination thereof, as specified in the applicable Award Agreement.

9.6 **Time of Payment Under Performance Unit Award.** A Holder's payment under a Performance Unit Award shall be made at such time as is specified in the applicable Award Agreement. The Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Performance Unit Award payment is no longer subject to a Substantial Risk of Forfeiture or (b) at a time that is permissible under Section 409A.

9.7 **Holder's Rights as Stockholder With Respect to a Performance Stock Award .** Subject to the terms and conditions of the Plan and the applicable Award Agreement, a Holder of a Performance Stock Award shall have all the rights of a stockholder with respect to the shares of Stock issued to the Holder pursuant to the Award during any period in which such issued shares of Stock are subject to forfeiture and restrictions on transfer, including, the right to vote such shares of Stock.

9.8 **Increases Prohibited.** Notwithstanding any provision of the Plan or an Award Agreement to the contrary, none of the Committee, the Board, the Company or any Affiliate may increase the amount of compensation payable under a Performance Stock Award or Performance Unit Award. The Committee may adjust downward, but not upward, the amount payable pursuant to such Awards, and the Committee may not waive the achievement of the applicable Performance Goals, except in the case of a change in ownership or control of the Company (as defined for purposes of Section 162(m)) or the death or Disability of the Employee. If the time at which a Performance Stock Award or Performance Unit Award will vest or be paid is accelerated for any reason, the number of shares of Stock subject to, or the amount payable under, the Performance Stock Award or Performance Unit Award shall be reduced to the extent required under Department of Treasury Regulation § 1.162-27(e)(2)(iii) to reasonably reflect the time value of money.

9.9 **Stockholder Approval.** No payments of Stock or cash will be made to a Covered Employee pursuant to this Article IX unless the stockholder approval requirements of Department of Treasury Regulation § 1.162-27(e)(4) are satisfied.

9.10 **Dividend Equivalents .** An Award Agreement for a Performance Unit Award may specify that the Holder shall be entitled to the payment of Dividend Equivalents under the Award.

ARTICLE X

CASH PERFORMANCE AWARDS

10.1 **Authority to Grant Cash Performance Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Cash Performance Awards under the Plan to key executive Employees who, by the nature and scope of their positions, regularly directly make or influence policy decisions which significantly impact the overall results or success of the Company in such amounts and upon such terms as the Committee shall determine. Subject to the following provisions in this Article X, the amount of any Cash Performance Awards shall be based on the attainment of such Performance Goals as the Committee may determine and the term, conditions and limitations applicable to any Cash Performance Awards made pursuant to the Plan shall be determined by the Committee.

10.2 **Covered Employees.** The Performance Goals upon which the payment or vesting of a Cash Performance Award to a Covered Employee that is intended to qualify as Performance-Based Compensation must meet the requirements of Sections 9.2, 9.2, 9.8 and 9.8 as applied to such Cash Performance Award.

10.3 **Written Agreement.** Each Cash Performance Award shall be evidenced by an Award Agreement that contains any vesting, transferability and forfeiture restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

10.4 **Form of Payment Under Cash Performance Award.** Payment under a Cash Performance Award shall be made in cash.

10.5 **Time of Payment Under Cash Performance Award.** A Holder's payment under a Cash Performance Award shall be made at such time as is specified in the applicable Award Agreement. The Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Cash Performance Award payment is no longer subject to a Substantial Risk of Forfeiture or (b) at a time that is permissible under Section 409A.

ARTICLE XI

OTHER STOCK-BASED AWARDS

11.1 **Authority to Grant Other Stock-Based Awards.** Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant other types of equity-based or equity-related Awards not otherwise described by the terms and provisions of the Plan (including the grant or offer for sale of unrestricted shares of Stock) under the Plan to eligible persons in such number and upon such terms as the Committee shall determine. Such Awards may involve the transfer of actual shares of Stock to Holders, or payment in cash or otherwise of amounts based on the value of shares of Stock and may include, without limitation, Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

11.2 **Value of Other Stock-Based Award.** Each Other Stock-Based Award shall be expressed in terms of shares of Stock or units based on shares of Stock, as determined by the Committee.

11.3 **Written Agreement.** Each Other Stock-Based Award shall be evidenced by an Award Agreement that contains any vesting, transferability and forfeiture restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

11.4 **Payment of Other Stock-Based Award** . Payment, if any, with respect to an Other Stock-Based Award shall be made in accordance with the terms of the Award, in cash, shares of Stock or any combination thereof, as the Committee determines.

11.5 **Separation from Service** . The Committee shall determine the extent to which a Holder's rights with respect to Other Stock-Based Awards shall be affected by the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee and need not be uniform among all Other Stock-Based Awards issued pursuant to the Plan.

11.6 **Time of Payment of Other Stock-Based Award**. A Holder's payment under an Other Stock-Based Award shall be made at such time as is specified in the applicable Award Agreement. If a payment under the Award Agreement is subject to Section 409A, the Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Other Stock-Based Award payment is no longer subject to a Substantial Risk of Forfeiture or (b) at a time that is permissible under Section 409A.

ARTICLE XII

OTHER CASH-BASED AWARDS

12.1 **Authority to Grant Other Cash-Based Awards** . Subject to the terms and provisions of the Plan, the Committee, at any time, and from time to time, may grant Other Cash-Based Awards under the Plan to eligible persons in such amounts and upon such terms as the Committee shall determine.

12.2 **Value of Other Cash-Based Award** . Each Other Cash-Based Award shall specify a payment amount or payment range as determined by the Committee.

12.3 **Written Agreement**. Each Other Cash-Based Award shall be evidenced by an Award Agreement that contains any vesting, transferability and forfeiture restrictions and other provisions not inconsistent with the Plan as the Committee may specify.

12.4 **Payment of Other Cash-Based Award** . Payment, if any, with respect to an Other Cash-Based Award shall be made in accordance with the terms of the Award, in cash.

12.5 **Time of Payment of Other Cash-Based Award**. Payment under an Other Cash-Based Award shall be made at such time as is specified in the applicable Award Agreement. If a payment under the Award Agreement is subject to Section 409A, the Award Agreement shall specify that the payment will be made (a) by a date that is no later than the date that is two and one-half (2 1/2) months after the end of the calendar year in which the Other Cash-Based Award payment is no longer subject to a Substantial Risk of Forfeiture or (b) at a time that is permissible under Section 409A.

12.6 **Separation from Service** . The Committee shall determine the extent to which a Holder's rights with respect to an Other Cash-Based Award shall be affected by the Holder's Separation from Service. Such provisions shall be determined in the sole discretion of the Committee and need not be uniform among all Other Cash-Based Awards issued pursuant to the Plan.

ARTICLE XIII

SUBSTITUTION AWARDS

Awards may be granted under the Plan from time to time in substitution for stock options and other awards held by employees of other entities who are about to become Employees, or whose employer is about to become an Affiliate as the result of a merger or consolidation of the Company with another corporation, or the acquisition by the Company of substantially all the assets of another corporation, or the acquisition by the Company of at least fifty percent (50%) of the issued and outstanding stock of another corporation as the result of which such other corporation will become a subsidiary of the Company. The terms and conditions of the substitute Awards so granted may vary from the terms and conditions set forth in the Plan to such extent as the Board at the time of grant may deem appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

ARTICLE XIV

NON-EMPLOYEE DIRECTOR AWARDS

All Awards to Non-Employee Directors shall be determined by the Board.

ARTICLE XV

ADMINISTRATION

15.1 **Awards.** The Plan shall be administered by the Committee or, in the absence of the Committee or in the case of awards issued to Non-Employee Directors, the Plan shall be administered by the Board. The members of the Committee (that is not itself the Board) shall serve at the discretion of the Board. The Committee shall have full and exclusive power and authority to administer the Plan and to take all actions that the Plan expressly contemplates or are necessary or appropriate in connection with the administration of the Plan with respect to Awards granted under the Plan.

15.2 **Authority of the Committee.**

(a) The Committee shall have full and exclusive power to interpret and apply the terms and provisions of the Plan and Awards made under the Plan, and to adopt such rules, regulations and guidelines for implementing the Plan as the Committee may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of the Plan. A majority of the members of the Committee shall constitute a quorum for the transaction of business relating to the Plan or Awards made under the Plan, and the vote of a majority of those members present at any meeting shall decide any question brought before that meeting. Any decision or determination reduced to writing and signed by a majority of the members shall be as effective as if it had been made by a majority vote at a meeting properly called and held. All questions of interpretation and application of the Plan, or as to Awards granted under the Plan, shall be subject to the determination, which shall be final and binding, of a majority of the whole Committee. No member of the Committee shall be liable for any act or omission of any other member of the Committee or for any act or omission on his or her own part, including the exercise of any power or discretion given to him or her under the Plan, except those resulting from his or her own willful misconduct. In carrying out its authority under the Plan, the Committee shall have full and final authority and discretion, including the following rights, powers and authorities to (i) determine the persons to whom and the time or times at which Awards will be made; (ii) determine the number and exercise price of shares of Stock covered in each Award subject to the terms and provisions of the Plan; (iii) determine the terms, provisions and conditions of each Award, which need not be identical; (iv) accelerate the time at which any outstanding Award will vest; (v) prescribe, amend and rescind rules and regulations relating to administration of the Plan; and (vi) make all other determinations and take all other actions deemed necessary, appropriate or advisable for the proper administration of the Plan.

(b) The Committee may make an Award to an individual who the Company expects to become an Employee of the Company or any of its Affiliates within three (3) months after the date of grant of the Award, with the Award being subject to and conditioned on the individual actually becoming an Employee within that time period and subject to other terms and conditions as the Committee may establish.

(c) The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award to a Holder in the manner and to the extent the Committee deems necessary or desirable to further the Plan's objectives. Further, the Committee shall make all other determinations that may be necessary or advisable for the administration of the Plan.

(d) On a calendar year basis, the Committee may, by resolution, delegate to one or more of its members or to one or more officers of the Company the limited authority to grant Awards under the Plan during such calendar year (other than Awards pursuant to Article IX or Article X) to (i) designated classes of Employees who are not officers of the Company or any Affiliate and subject to the provisions of Section 16 of the Exchange Act and (ii) Third Party Service Providers. The resolution providing such authorization must set forth the total number of shares of Stock that may be granted under Awards by the Chief Executive Officer during the calendar year. The Chief Executive Officer of the Company shall report periodically to the Committee regarding the nature and scope of the Awards granted pursuant to the authority delegated.

(e) The Committee may employ attorneys, consultants, accountants, agents, and other persons, any of whom may be an Employee, and the Committee, the Company, and its officers shall be entitled to rely upon the advice, opinions, or valuations of any such person. As permitted by law and the terms and provisions of the Plan, the Committee may delegate to one or more of its members or to one or more officers of the Company or its Affiliates or other Employees or to one or more agents or advisors such administrative duties as it may deem advisable, and the Committee or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan.

15.3 **Decisions Binding.** All determinations and decisions made by the Committee or the Board, as the case may be, pursuant to the provisions of the Plan and all related orders and resolutions of the Committee or the Board, as the case may be, shall be final, conclusive and binding on all persons, including the Company, its Affiliates, its stockholders, Holders and the estates and beneficiaries of Holders.

15.4 **No Liability.** Under no circumstances shall the Company, its Affiliates, the Board or the Committee incur liability for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's, its Affiliates', the Committee's or the Board's roles in connection with the Plan.

ARTICLE XVI

AMENDMENT OR TERMINATION OF PLAN OR AWARD AGREEMENT

16.1 **Amendment, Modification, Suspension, and Termination of the Plan** . Subject to Section 16.3, the Board may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan, provided, however, no amendment of the Plan shall be made without stockholder approval if stockholder approval is required by applicable law or stock exchange rules.

16.2 **Amendment, Modification, Suspension, and Termination of Award Agreement** . Subject to Section 16.3, the Committee may, in its discretion and at any time and from time to time, alter, amend, modify, suspend, or terminate any Award Agreement in whole or in part in any manner that it deems appropriate and that is consistent with the terms of the Plan or necessary to implement the requirements of the Plan. Notwithstanding the preceding sentence, without the prior approval of the Company's stockholders or except as provided in Section 4.5, the Committee shall not directly or indirectly lower the Option Price of a previously granted Option or the grant price of a previously granted SAR, or cancel a previously granted Option or previously granted SAR for a payment of cash or other property, in each case if the aggregate fair market value of such Option or SAR is less than the gross Option Price of such Option or the gross grant price of such SAR.

16.3 **Awards Previously Granted** . Except as expressly provided otherwise under the Plan (including Sections 4.7, 4.8 and 4.9), no alteration, amendment, modification, suspension or termination of the Plan or an Award Agreement shall adversely affect in any material manner any Award previously granted under the Plan, without the written consent of the Holder holding such Award.

ARTICLE XVII

MISCELLANEOUS

17.1 **Unfunded Plan/No Establishment of a Trust Fund**. Holders shall have no right, title, or interest whatsoever in or to any investments that the Company or any of its Affiliates may make to aid in meeting obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Holder, beneficiary, legal representative, or any other person. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts, except as expressly set forth in the Plan. No property shall be set aside nor shall a trust fund of any kind be established to secure the rights of any Holder under the Plan. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended.

17.2 **No Employment Obligation**. The granting of any Award shall not constitute an employment or service contract, express or implied, and shall not impose upon the Company or any Affiliate any obligation to employ or continue to employ, or to utilize or continue to utilize the services of, any Holder. The right of the Company or any Affiliate to terminate the employment of, or the provision of services by, any person shall not be diminished or affected by reason of the fact that an Award has been granted to him, and nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company or its Affiliates to terminate any Holder's employment or service relationship at any time or for any reason not prohibited by law.

17.3 **Tax Withholding.**

(a) The Company or any Affiliate shall be entitled to deduct from other compensation payable to each Holder any sums required by federal, state, local or foreign tax law to be withheld with respect to the vesting or exercise of an Award or lapse of restrictions on an Award. In the alternative, the Company may require the Holder (or other person validly exercising the Award) to pay such sums for taxes directly to the Company or any Affiliate in cash or by check within one day after the date of vesting, exercise or lapse of restrictions.

(b) The Committee may, in its discretion, permit a Holder to satisfy any Minimum Statutory Tax Withholding Obligation arising upon the vesting or exercise of, or payment under, an Award by delivering to the Holder a reduced number of shares of Stock in the manner specified herein. If permitted by the Committee and acceptable to the Holder, at the time of the vesting or exercise of, or payment under, an Award with respect to which the Company or an Affiliate has a tax withholding obligation the Company or the Affiliate may (a) calculate the amount of the Company's or an Affiliate's Minimum Statutory Tax Withholding Obligation on the assumption that all such shares of Stock vested under the Award are made available for delivery, (b) reduce the number of such shares of Stock made available for delivery so that the Fair Market Value of the shares of Stock withheld on the date of the event giving rise to the withholding obligation approximates the Company's or an Affiliate's Minimum Statutory Tax Withholding Obligation and (c) in lieu of the withheld shares of Stock, remit cash to the United States Treasury or other applicable governmental authorities, on behalf of the Holder, in the amount of the Minimum Statutory Tax Withholding Obligation. The Company shall withhold only whole shares of Stock to satisfy its Minimum Statutory Tax Withholding Obligation. Where the Fair Market Value of the withheld shares of Stock does not equal the amount of the Minimum Statutory Tax Withholding Obligation, the Company shall withhold shares of Stock with a Fair Market Value less than the amount of the Minimum Statutory Tax Withholding Obligation and the Holder must satisfy the remaining minimum withholding obligation in some other manner permitted under this Section 17.3. The withheld shares of Stock not made available for delivery by the Company shall be retained as treasury shares or will be cancelled and the Holder's right, title and interest in such shares of Stock shall terminate.

(c) The Company shall have no obligation upon vesting or exercise of any Award or lapse of restrictions on an Award or other event requiring payment until the Company or an Affiliate has received payment from the Holder sufficient to cover the Minimum Statutory Tax Withholding Obligation of the Holder with respect to that vesting, exercise, lapse of restrictions or other event. Neither the Company nor any Affiliate shall be obligated to advise a Holder of the existence of the tax or the amount which it will be required to withhold.

17.4 **Gender and Number.** If the context requires, words of one gender when used in the Plan shall include the other and words used in the singular or plural shall include the other.

17.5 **Severability .** In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

17.6 **Headings.** Headings of Articles and Sections are included for convenience of reference only and do not constitute part of the Plan and shall not be used in construing the terms and provisions of the Plan.

17.7 **Other Compensation Plans.** The adoption of the Plan shall not affect any other option, incentive or other compensation or benefit plans in effect for the Company or any Affiliate, nor shall the Plan preclude the Company from establishing any other forms of incentive compensation arrangements for Employees, Non-Employee Directors or Third Party Service Providers.

17.8 **Retirement and Welfare Plans** . Neither Awards made under the Plan nor shares of Stock or cash paid pursuant to such Awards, may be included as “compensation” for purposes of computing the benefits payable to any person under the Company’s or any Affiliate’s retirement plans (both qualified and non-qualified) or welfare benefit plans unless such other plan expressly provides that such compensation shall be taken into account in computing a participant’s benefit.

17.9 **Other Awards**. The grant of an Award shall not confer upon the Holder the right to receive any future or other Awards under the Plan, whether or not Awards may be granted to similarly situated Holders, or the right to receive future Awards upon the same terms or conditions as previously granted.

17.10 **Law Limitations/Governmental Approvals** . The granting of Awards and the issuance of shares of Stock under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

17.11 **Delivery of Title** . The Company shall have no obligation to issue or deliver evidence of title for shares of Stock issued under the Plan prior to (a) obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and (b) completion of any registration or other qualification of the Stock under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

17.12 **Inability to Obtain Authority** . The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company’s counsel to be necessary to the lawful issuance and sale of any shares of Stock hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such shares of Stock as to which such requisite authority shall not have been obtained.

17.13 **Investment Representations** . The Committee may require any person receiving Stock pursuant to an Award under the Plan to represent and warrant in writing that the person is acquiring the shares of Stock for investment and without any present intention to sell or distribute such Stock.

17.14 **Persons Residing Outside of the United States**. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company or any of its Affiliates operates or has employees, the Committee, in its sole discretion, shall have the power and authority to (a) determine which Affiliates shall be covered by the Plan; (b) determine which persons employed Outside the United States are eligible to participate in the Plan; (c) amend or vary the terms and provisions of the Plan and the terms and conditions of any Award granted to persons who reside Outside the United States; (d) establish subplans and modify exercise procedures and other terms and procedures to the extent such actions may be necessary or advisable (and any subplans and modifications to Plan terms and procedures established under this [Section 17.14](#) by the Committee shall be attached to the Plan document as Appendices); and (e) take any action, before or after an Award is made, that it deems advisable to obtain or comply with any necessary local government regulatory exemptions or approvals. Notwithstanding the above, the Committee may not take any actions hereunder, and no Awards shall be granted, that would violate the Code, the Exchange Act or any securities law or governing statute or any other applicable law.

17.15 **No Fractional Shares** . No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, additional Awards, or other property shall be issued or paid in lieu of fractional shares of Stock or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

17.16 **Interpretation.** The term “including” means “including without limitation”. The term “or” means “and/or” unless clearly indicated otherwise. The term “vest” includes the lapse of restrictions on Awards, including Forfeiture Restrictions. Reference herein to a “Section” shall be to a section of the Plan unless indicated otherwise.

17.17 **Governing Law; Venue.** The provisions of the Plan and the rights of all persons claiming thereunder shall be construed, administered and governed under the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the sole and exclusive jurisdiction and venue of the federal or state courts of the State of Texas to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

**DXP ENTERPRISES, INC.
2016 OMNIBUS INCENTIVE PLAN**

RESTRICTED STOCK AWARD AGREEMENT

This **RESTRICTED STOCK AWARD AGREEMENT** (this “Agreement”) is entered into by and between DXP Enterprises, Inc., a Texas corporation (the “Company”), and [RECIPIENT NAME] (the “Recipient”), pursuant to the terms and conditions of the DXP Enterprises, Inc. 2016 Omnibus Incentive Plan, as it may be amended from time to time (the “Plan”), a copy of which has previously been made available to the Recipient and the terms and provisions of which are incorporated by reference herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Plan.

1. **Restricted Stock Award** . In consideration of services rendered and to be rendered by the Recipient to the Company and its Affiliates, the Company has granted to the Recipient effective as of the Grant Date a Restricted Stock Award of _____ shares of Restricted Stock, in accordance with the terms of this Agreement and the Plan.

2. **Date of Restricted Stock Award** . The date of the Restricted Stock Award to the Recipient is _____, 20 ____ (the “Grant Date”).

3. **Transfer Restrictions** . The shares of Restricted Stock granted hereby may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of, to the extent then subject to the Forfeiture Restrictions. Any such attempted sale, assignment, pledge, exchange, hypothecation, transfer, encumbrance or disposition in violation of this Agreement shall be void and the Company shall not be bound thereby. Further, the shares of Restricted Stock granted hereby that are no longer subject to Forfeiture Restrictions may not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable securities laws. The Recipient also agrees that the Company may (a) refuse to cause the transfer of the shares covered hereby to be registered on the applicable stock transfer records of the Company if such proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of any applicable securities law and (b) give related instructions to the transfer agent, if any, to stop registration of the transfer of the such shares. The shares of Restricted Stock granted hereby are registered with the Securities and Exchange Commission under a Registration Statement on Form S-8. A Prospectus describing the Plan and the shares is available from the Company.

4. **Period of Restriction** . The shares of Restricted Stock granted hereby are subject to the prohibitions and restrictions set forth herein with respect to the sale or otherwise disposition of the shares of Restricted Stock granted hereunder and the obligation to forfeit and surrender such shares to the Company in accordance with the terms and conditions of the Plan and this Agreement (the “Forfeiture Restrictions”).

(a) Vesting in General. The Forfeiture Restrictions shall lapse as to the shares of Restricted Stock that are awarded hereby, and the Recipient's right to sell or other dispose of such shares shall vest, in accordance with the following schedule, provided that the Recipient's employment or other service relationship with the Company and its Affiliates has not terminated prior to the applicable lapse date set forth below :

Lapse Date	Cumulative Vested Percentage of Restricted Stock Award
First Anniversary of Grant Date	20%
Second Anniversary of Grant Date	40%
Third Anniversary of Grant Date	60%
Fourth Anniversary of Grant Date	80%
Fifth Anniversary of Grant Date	100%

Upon the lapse of the Forfeiture Restrictions with respect to the shares of Restricted Stock granted hereby the Company shall cause to be delivered to the Recipient one or more stock certificates or electronic book entries representing such shares, and such shares shall be transferable by the Recipient (except to the extent that any proposed transfer would, in the opinion of counsel satisfactory to the Company, constitute a violation of applicable securities law).

(b) Termination of Employment or Service for Any Reason. Notwithstanding the vesting schedule set forth in Section 4(a), upon the Recipient's termination of employment or other service relationship with the Company and its Affiliates for any reason during the applicable Period of Restriction, all non-vested shares of Restricted Stock then subject to Forfeiture Restrictions under this Agreement shall be immediately forfeited to the Company by the Recipient and the Recipient shall cease to have any rights of a stockholder with respect to such forfeited shares. Upon any such forfeiture, all rights of the Recipient to such forfeited shares of Restricted Stock shall cease and terminate, without any further obligation on the part of the Company.

(c) Change in Control. Notwithstanding the vesting schedule set forth in Section 4(a), in the event of a Change of Control, the Forfeiture Restrictions shall lapse and the Recipient shall be 100% vested in all shares of Restricted Stock subject to this Agreement.

5. **Confidentiality** .

(a) Confidential and Proprietary Information. The Company agrees to provide to the Recipient, simultaneously with, and subsequent to, the execution of this Agreement, confidential and proprietary information of the Company. The Recipient acknowledges that the law provides companies, such as the Company, with protection for their confidential and proprietary information. The Recipient covenants that the Recipient will not disclose, directly or indirectly, any of the Company's confidential or proprietary information to anyone without the prior written consent of the Company. The Recipient further covenants that the Recipient will not use any of the Company's confidential or proprietary information in any way, either during or after the Recipient's term of employment or service with the Company and its Affiliates, except as required in the course of that employment or service. All documents which the Recipient prepared or which may have been provided or made available to the Recipient in the course of work for the Company and its Affiliates shall be deemed the exclusive property of the Company and its Affiliates and shall remain in the Company's and such Affiliates' possession. Upon the termination of the Recipient's employment with or service to the Company and its Affiliates, regardless of the reason for such termination, the Recipient shall promptly deliver to the Company all materials of a confidential nature relating to the business of the Company (or any of its Affiliates) which are within the Recipient's possession or control.

(b) Mandatory Amendment. The parties to this Agreement agree that the limitations contained in Section 5(a) with respect to, as the case may be, duration and scope of activity are reasonable. However, if any court shall determine that the duration or scope of activity of any restriction contained in Section 5(a) is unenforceable, it is the intention of the parties that such restrictive covenant set forth herein shall not thereby be terminated but shall be deemed amended to extend only over the longest period of time for which it may be enforceable and/or to the maximum extent in all other aspects as to which it may be valid and enforceable, all as determined by such court.

(c) Forfeiture. The parties agree that a breach by the Recipient of any of the provisions of Section 5(a) would cause irreparable damage to the Company. Therefore, in consideration of the grant of this Restricted Stock Award Agreement and notwithstanding any other provisions of this Agreement or the Plan, if the Board finds by a majority vote after full consideration of the facts that the Recipient, before or after termination of his or employment with or service to the Company or an Affiliate for any reason violated the provisions of Section 5(a), the Recipient shall forfeit all vested or unvested shares of Restricted Stock granted hereunder to the Company and, to the extent the Recipient has disposed of such shares, will pay to the Company the aggregate amount of any proceeds realized by the Recipient upon such disposition. The decision of the Board as to the extent of the Recipient's breach of the provisions of Section 5(a) shall be final. No decision of the Board, however, shall affect the finality of the discharge of the Recipient by the Company or an Affiliate in any manner.

(d) Survival. The provisions of this Section 5 shall survive the termination of the Recipient's employment or service with the Company and all Affiliates.

6. **Certificates/Electronic Book Entries**. Effective as of the Grant Date, the Company shall cause to be issued in the Recipient's name the shares of Restricted Stock granted hereby. The Company shall cause certificates or electronic book entries evidencing the shares of Restricted Stock, and any shares of Stock or rights to acquire shares of Stock distributed by the Company in respect of the shares of Restricted Stock during the applicable Period of Restriction (the "Retained Distributions"), to be issued in the Recipient's name. During the Period of Restriction such certificates and electronic book entries shall bear a restrictive legend to the effect that ownership of such shares of Restricted Stock (and any Retained Distributions), and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms, and conditions provided in the Plan and this Agreement. Upon issuance the certificates and electronic book entries shall be delivered to such depository as may be designated by the Committee as a depository for safekeeping until the forfeiture of such shares of Restricted Stock occurs or the Forfeiture Restrictions lapse, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the shares of Restricted Stock and any securities constituting Retained Distributions which shall be forfeited in accordance with the Plan and this Agreement. In accepting the award of shares of Restricted Stock set forth in this Agreement the Recipient accepts and agrees to be bound by all the terms and conditions of the Plan and this Agreement.

7. **No Fractional Shares.** All provisions of this Agreement concern whole shares of the Stock. Notwithstanding anything contained in this Agreement to the contrary, if the application of any provision of this Agreement would yield a fractional share, such fractional share shall be rounded down to the next whole share of the Stock.

8. **Capital Adjustments and Reorganizations.** The existence of the Restricted Stock shall not affect in any way the right or power of the Company (or any Affiliate) to make or authorize any adjustment, recapitalization, reorganization or other change in its capital structure or its business, engage in any merger or consolidation, issue any debt or equity securities, dissolve or liquidate, or sell, lease, exchange or otherwise dispose of all or any part of its assets or business, or engage in any other corporate act or proceeding, whether of a similar character or otherwise.

9. **Rights of Recipient as Stockholder .** The Recipient shall have the right to vote the shares of Restricted Stock awarded to the Recipient hereunder and to receive and retain all regular dividends paid in cash or property (other than Retained Distributions), and to exercise all other rights, powers and privileges of a holder of shares of Stock, with respect to such shares of Restricted Stock, with the exception that (a) the Recipient shall not be entitled to delivery of the stock certificate or certificates or electronic book entry or entries representing such shares until the Forfeiture Restrictions applicable thereto shall have expired, (b) the Company shall retain custody of all Retained Distributions made or declared with respect to the shares of Restricted Stock (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the shares of Restricted Stock) until such time, if ever, as the shares of Restricted Stock with respect to which such Retained Distributions shall have been made, paid, or declared shall have become vested, and such Retained Distributions shall not bear interest or be segregated in separate accounts and (c) the Recipient may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the shares of Restricted Stock or any Retained Distributions during the Period of Restriction.

10. **Tax Withholding .** To the extent that the receipt of the shares of Restricted Stock or the lapse of any Forfeiture Restrictions results in income to the Recipient for federal, state, local or foreign income, employment or other tax purposes with respect to which the Company or any Affiliate has a withholding obligation, the Recipient shall deliver to the Company at the time of such receipt or lapse, as the case may be, such amount of money as the Company or any Affiliate may require to meet its obligation under applicable tax laws or regulations, and, if the Recipient fails to do so, the Company is authorized to withhold from the shares granted hereby or from any cash or stock remuneration then or thereafter payable to the Recipient in any capacity any tax required to be withheld by reason of such resulting income.

11. **No Assignment** . This Agreement, the Restricted Stock, and any rights and benefits under the Plan granted hereunder are of a personal nature and any attempt to anticipate, alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or change the same in any manner by the Recipient, or any other person claiming by, through or under the Recipient, except in a manner expressly permitted under the Plan and this Agreement, shall be void and the Company shall not be bound thereby.

12. **Section 83(b) Election** . The Recipient shall not exercise the election permitted under section 83(b) of the Internal Revenue Code of 1986, as amended, with respect to the shares of Restricted Stock awarded pursuant to this Agreement without the prior written approval of the Chief Financial Officer of the Company. If the Chief Financial Officer of the Company permits the election, the Recipient shall timely pay to the Company the amount necessary to satisfy the Company's tax withholding obligation, if any, or to satisfy this obligation in a manner acceptable to the Chief Financial Officer of the Company.

13. **Amendment and Waiver** . Except as otherwise provided herein or in the Plan or as necessary to implement the provisions of the Plan, this Agreement may be amended, modified or superseded only by written instrument executed by the Company and the Recipient. Only a written instrument executed and delivered by the party waiving compliance hereof shall make any waiver of the terms or conditions. Any waiver granted by the Company shall be effective only if executed and delivered by a duly authorized executive officer of the Company other than the Recipient. The failure of any party at any time or times to require performance of any provisions hereof shall in no manner effect the right to enforce the same. No waiver by any party of any term or condition, or the breach of any term or condition contained in this Agreement, in one or more instances, shall be construed as a continuing waiver of any such condition or breach, a waiver of any other condition, or the breach of any other term or condition.

14. **Employment or Service Relationship** . For purposes of this Agreement, the Recipient shall be considered to be in the employment of, or service to, the Company and its Affiliates as long as the Recipient has an employment or service relationship with the Company and its Affiliates. The Committee shall determine any questions as to whether and when there has been a termination of such employment or service relationship, and the cause of such termination, under the Plan and the Committee's determination shall be final and binding on all persons.

15. **Not an Employment or Service Agreement** . This Agreement is not an employment or service agreement, and no provision of this Agreement shall be construed or interpreted to create an employment or other service relationship between the Recipient and the Company or any Affiliate, to guarantee the right to remain employed by or in the service of the Company or any Affiliate for any specified term or require the Company or any Affiliate to employ or utilize the services of the Recipient for any period of time.

16. **Legend** . The Recipient consents to the placing on the certificates and electronic book entries for the shares granted under this Agreement an appropriate legend restricting resale or other transfer of the shares except in accordance with all applicable securities laws and rules thereunder.

17. **Notices** . Any notice, instruction, authorization, request or demand required hereunder shall be in writing, and shall be delivered either by personal delivery, by telecopy or similar facsimile means, by certified or registered mail, return receipt requested, or by courier or delivery service, addressed to the Company at the then current address of the Company's Principal Corporate Office, and to the Recipient at the Recipient's residential address indicated in the Company's records, or at such other address and number as a party shall have previously designated by written notice given to the other party in the manner hereinabove set forth. Notices shall be deemed given when received, if sent by facsimile means (confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile means); and when delivered (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by express courier or delivery service, or sent by certified or registered mail, return receipt requested.

18. **Interpretation** . In the event of any difference of opinion concerning the meaning or effect of the Plan or this Agreement such difference shall be resolved by the Committee.

19. **Governing Law and Severability** . The validity, construction and performance of this Agreement shall be governed by the laws of the State of Texas, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction. The invalidity of any provision of this Agreement shall not affect any other provision of this Agreement, which shall remain in full force and effect.

20. **Successors and Assigns** . Subject to the limitations which this Agreement imposes upon the transferability of the shares granted hereby, this Agreement shall bind, be enforceable by and inure to the benefit of the Company and its successors and assigns, and to the Recipient, the Recipient's permitted assigns, executors, administrators, agents, legal and personal representatives.

21. **Plan Incorporated by Reference and Acceptance of Terms and Conditions** . The Plan is incorporated herein and by this reference made a part hereof for all purposes. The Recipient warrants and agrees that he or she has received a copy of the Plan, agrees and accepts the terms and conditions of the Plan, ratifies and consents to any action taken by the Company, the Board of Directors and the Committee concerning the Plan and agrees that all rights granted hereunder are subject to the more detailed provisions of the Plan.

22. **Counterparts** . This Agreement may be executed in two or more counterparts, each of which shall be an original for all purposes but all of which taken together shall constitute but one and the same instrument

[SIGNATURES BEGIN ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by an officer thereunto duly authorized, and the Recipient has executed this Agreement, all effective as of the Grant Date.

DXP ENTERPRISES, INC.

By: _____
Name: _____
Title: _____
Date: _____, 20__

ACCEPTED this _____ day of _____, 20__.

[RECIPIENT NAME]

**DXP ENTERPRISES, INC.
2016 OMNIBUS INCENTIVE PLAN**

IRREVOCABLE STOCK POWER

KNOW ALL MEN BY THESE PRESENTS, THAT the undersigned, **FOR VALUE RECEIVED** , has bargained, sold, assigned and transferred and by these presents does bargain, sell, assign and transfer unto DXP Enterprises, Inc., a Texas corporation (the “ Company ”), the shares of Restricted Stock transferred pursuant to the Restricted Stock Award Agreement dated effective as of _____ , 20 ____ , between the Company and the undersigned; **AND** subject to and in accordance with such Restricted Stock Award Agreement the undersigned does hereby constitute and appoint the Secretary of the Company the undersigned’s true and lawful attorney, **IRREVOCABLY** , to sell assign, transfer, hypothecate, pledge and make over all or any part of such shares and for that purpose to make and execute all necessary acts of assignment and transfer thereof, and to substitute one or more persons with like full power, hereby ratifying and confirming all that said attorney or his or her substitutes shall lawfully do by virtue hereof.

IN WITNESS WHEREOF , the undersigned has executed this Irrevocable Stock Power effective the _____ , 20 ____ .

[RECIPIENT NAME]

CERTIFICATION

I, David R. Little, certify that:

1. I have reviewed this report on Form 10-Q of DXP Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 15, 2016

/s/ David R. Little

David R. Little
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Mac McConnell, certify that:

1. I have reviewed this report on Form 10-Q of DXP Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 15, 2016

/s/ Mac McConnell

Mac McConnell

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that, to my knowledge, the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David R. Little

David R. Little
President and Chief Executive Officer
(Principal Executive Officer)

August 15, 2016

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of DXP Enterprises, Inc. (the "Company"), hereby certifies that, to my knowledge, the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mac McConnell

Mac McConnell
Chief Financial Officer
(Principal Financial Officer)

August 15, 2016

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being filed as part of the Report or as a separate disclosure document.
